1995 Farm Bill

Guidance of the Administration

United States Department of Agriculture

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DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

To Members of Congress:

We have an obligation of highest priority that we must meet this year: We have to write a new farm bill. Our obligation is to America's farmers and ranchers, and the rest of us who depend upon them, and we should never forget that this legislation will affect consumers, our balance of trade, a major portion of the federal investment in research, millions of Americans who live in rural areas but who are not farmers, and some of our most important, and most successful conservation and environmental programs. What happens over the next five years to American agriculture, and the farm bill that sets its direction, may be as critical to the future of our rural and agricultural economy as what has happened over the last 50.

I can assure you that the farm bill is a high priority to the Clinton Administration. When President Clinton asked me to take this job, he asked me to be an advocate for agriculture. This proposal is true to that responsibility. He also asked me to convene the National Rural Conference before the farm bill debate begins. So, last month, I spent nearly two weeks traveling across the country holding a series of regional conferences with farmers, ranchers, students, researchers, exporters, local officials--the whole spectrum of rural America. My conferences were capped by the National Rural Conference the President conducted in Ames, Iowa. He, the Vice President, and I spent the entire day talking with Americans from all regions listening to their advice.

This farm bill reflects what we heard. It also contains the recommendations Department of Agriculture officials began formulating last summer at listening sessions held around the country and it includes the recommendations and comments many of you have advocated. Our proposals have already been debated and analyzed within the Administration and I welcome the next round of debate that will begin today with the release of this document. I hope, as Administrations and Congresses have always done, that we come to a bipartisan, broad consensus on the final product.

SUSTAIN RURAL AMERICA

President Clinton said at the National Rural Conference that his farm policy would "do no harm." That simple but profound message is one of the benchmarks upon which the Administration's farm bill recommendations rest. Some reform for reform's sake; we propose reform where we believe reforms are warranted, keeping in mind the President's charge to "do no harm." This farm bill does what farm bills should do: It maintains a safety net for farmers, rural America, and for the millions who depend on the Department of Agriculture's nutrition and feeding programs.

The basic framework for the safety net in this package is built into the President's fiscal year 1996 budget and the five-year spending program it prescribes. The burden of proof falls on those who would make substantial budget reductions in that framework, and in our farm bill recommendations that are designed to sustain the farm and food programs that have produced history's most abundant, most affordable, and most wholesome food supply. The farm bill recommendations maintain a level of investment we believe critical to sustaining our food and fiber system, especially given the dramatic spending reductions agriculture has absorbed over the last decade.

At the same time, no one should neglect the Clinton Administration's commitment to deficit reduction nor the reality that farm spending will continue to contribute to budget discipline. The President's budget proposed $1.5 billion in cuts, on top of the reductions already enacted, making this Administration the leader in bringing discipline to Federal spending. USDA has contributed significantly: The Department is streamlining--indeed, its plan is a model for the rest of the Federal government--and by the time it is fully implemented, fully one-third of the agencies will be consolidated and more than 1,100 field offices will be closed, resulting in a spending reduction of more than $4 billion.

The farm bill will, obviously, be written to conform to the budget resolution, just as our recommendations were written to be compatible with the Administration's overall budget. We believe that the spending level we have proposed is appropriate. It will permit a gradual transition to a more market-oriented farm sector--a far preferable approach than a sudden, dramatic shock to the economic stability of farmers and ranchers that risks undermining the sort of long-term planning and projections, especially as they affect real estate values, common to agriculture. In short, we have recommended a farm bill, not simply a budget bill, and I recommend that principle to you in your deliberations.

EMPOWER, NOT ENCUMBER

The farm bill recommendations take the next step in the evolution of the relationship between the Federal government and America's farmers and everyone else served by USDA: It loosens the constraints of current policies. The transitional recommendations we are proposing are consistent with the funding commitment to help America's food and fiber system get to where it wants to be in five years, not where the government thinks it should be.

As new opportunities present themselves, we believe that America's farmers should be able to take advantage of them; farm program restrictions and regulations should not stand in the way. Over the life of the farm bill that we propose farmers will have that flexibility without having to sacrifice program benefits. Just as we offer farmers greater decision-making and more flexibility, our farm bill recommendations will shift more authority to local and state officials--in targeting conservation programs, rural development efforts.

At the same time we propose loosening Federal restrictions, we also propose revising Federal investments in areas critical to the economic well-being of American agriculture. Two examples are notable: we propose revising agricultural export programs to make them more responsive to changing market opportunities and conditions, and we believe it is time to rethink our investment in agricultural research to ensure that American agriculture continues to be equipped with the best scientific base possible for the next century.

The President and I heard about the pressing needs in rural America--the millions of Americans who live in our small towns and rural communities who are not farmers--during the National Rural Conference. While the economy continues to grow in our urban areas, many parts of rural America have not enjoyed this recovery. The Federal government can, and we believe should, play a constructive, catalytic role in jump-starting many of those areas. To empower rural America, we recommend that Federal resources be better targeted to areas of greatest need, that rural America be equipped to take advantage of the latest in telecommunications technology, and that the Federal government assist in bringing investment capital into areas of need.

PRINCIPLES FOR MEETING THE GOALS OF TRANSITION

Our farm bill recommendations are designed to meet eight goals of the transitional phase American agriculture finds itself in and are based on eight principles for change. They are:

- ***Support for U.S. farmers should be continued and producers given more flexibility to respond to market forces.*** Americans enjoy a food supply whose abundance, variety, quality, and affordability is second to none. Farm programs, currently costing seven-tenths of 1 percent of the Federal budget, are an acceptable price to help promote economic stability in an industry that provides such immense value every day to every citizen.

- ***Rural development programs must continue to invest in traditional infrastructure while expanding the investment in information infrastructure and building human capital.*** Rural development requires a four-pronged approach: traditional infrastructure, such as water and waste disposal; information infrastructure to connect rural areas to larger markets; business development efforts to create more and diverse job opportunities and help accelerate the diffusion of technology, and increased human skills to make these increasingly complex systems succeed. New sources of capital are needed to help achieve these goals.

- ***Conservation and environmental programs should be extended, made simpler, and made more workable for agriculture.*** The Conservation Reserve Program has reaped enormous benefits, including reduced erosion and increased water

quality, tree planting, and wildlife protection. The program should be reauthorized and retargeted. Likewise, the Wetlands Reserve Program should continue and reach the goal of restoring 975,000 acres of wetlands. Conservation and environmental program requirements must be simplified and better incorporate state and local priorities. Program administration must be made less burdensome for producers.

- ***Agricultural trade should be expanded through retention, but improvement, of current trade programs***. Growing exports have become indispensable to the financial health of agriculture and, increasingly, the national economy. This year, agricultural exports are expected to exceed a record $48 billion and contribute a $20 billion-surplus to the U.S. trade balance. NAFTA and the Uruguay Round have opened the door to greater trade opportunities, but U.S. farmers will also face greater competition. While fulfilling our commitments to reduced protection under the trade agreements, programs should be implemented to position U.S. agriculture to prosper in the global market by promoting exports, combating unfair trade, and developing new markets.

- ***Marketing programs must position producers to excel as strong, independent participants in the global marketplace***. Future agricultural opportunities will continue to accrue to those countries whose commodities meet science-based sanitary and phytosanitary standards. By identifying new customers for producers and facilitating efforts to meet the needs of those customers, such as the development of new uses of agricultural products, rural economies are strengthened.

- ***Food programs should continue as a Federal responsibility but be made more cost-effective, responsive to nutritional requirements, and adaptable to state and local needs.*** Food assistance programs fulfill our social responsibility to help ensure that low-income households and children have adequate diets. These programs should continue to be operated with national standards to assure equitable treatment to all needing assistance, regardless of where they live. Yet, these programs can be changed to reduce fraud, abuse, and errors and to increase the state role in program operation. And, there should be a new effort made to improve the nutritional intake of program participants, as well as all Americans.

- ***The Federal government must continue to ensure consumers a safe and wholesome food supply.*** Even in the nation with the safest food supply in the world, we still need to bring scientific pathogen control to all of our meat and poultry production. This food safety effort should extend from farm to table.

- ***Investment in research must be emphasized and maintained while ensuring that research is focused on top-priority problems in agriculture, resource use and rural areas.*** The U.S. agricultural research record is unparalleled in having

achieved farm productivity growth, safe food products, and sustainable production techniques. The Federal-State partnership should be strengthened with an eye toward addressing the challenges that will accompany more interdependent global markets, increased demands on resource use, and the need to stimulate economic opportunity in farm and rural areas.

These objectives for the 1995 Farm Bill reflect the important constructive role Federal agricultural, resource, and rural programs have played in the lives of Americans. Yet, maintaining the status quo is not acceptable. Programs have to be altered to reflect new issues, address realized inadequacies and become more cost-effective as Federal outlays are curbed to reduce the Federal budget deficit.

The Administration offers many suggestions for change in this guidance document but recognizes that Congress will and should address these and many other issues. As Congress considers program changes, the Administration is committed to working together to maximize the public good. To that end, the following principles should guide program or policy change:

- Policy and program change should strive to increase market orientation and promote competition and efficiency in order to enhance farm income.

- Change should simplify, ease the burden on the public, and promote cost-effective delivery.

- Change should increase the voice of state and local communities and officials.

- Change should protect agricultural producers from undue financial stress while imposing no new burdens on consumers and taxpayers.

- Change should honor the spirit and letter of international agreements.

- Change should provide incentives to adopt environmentally beneficial practices and comply with environmental requirements.

- Change should enhance our food safety systems and protections.

- Change should build on the successes of current programs, notably farm income support, environmental quality, trade expansion, nutrition security, food safety, provision of rural infrastructure, and innovations from the Federal-State research partnership.

Any change must be consistent with the FY 1996 Budget's assumptions for USDA funding, including overall proposed budget savings and streamlining in both mandatory and discretionary funds.

As the legislative process developing the Farm Bill continues, the Administration will provide additional information on the guidance contained in this document as well as additional ideas for consideration.

MORE THAN JUST THE FARM BILL

The President hosted the National Rural Conference to do more than get ideas for the farm bill; he did it to make sure that all of our policies reflect the concerns of rural America. I want to underscore that point and stress its importance to you: The farm bill is critically important to rural America, but it will not be the only piece of legislation you consider that will affect rural America. Make sure the rural voice gets heard in everything you do.

During the conferences, I heard about a number of problems beyond the traditional scope of the farm bill. Farmers and others who live in rural America are increasingly concerned that tax laws may prevent them from being able to provide for their children and from being able to pass their farm on to them.

The growing concentration of economic power away from rural areas and within some industries raises worries in rural America about whether antitrust laws and regulations are being vigorously enforced. Changes in banking, transportation, telecommunications, and agricultural industries have serious ramifications for rural America and all of us must ensure that the new opportunities these changes bring do not elude rural America.

A NEW NAME FOR A NEW CENTURY

Today, as they have for 50 years and likely for 50 more, farm programs rest on the food supply they provide. Today, more than half of USDA's budget is dedicated to food programs--food stamps, WIC, school breakfast, and nutrition education, to cite a few. Today, agriculture alone no longer describes the lion's share of the population as it did when Abraham Lincoln created the "people's department".

To better reflect our constituency, our programs, and our reason for being, the first recommendation in our farm bill is to change the name of the Department itself to the Department of Food and Agriculture--a department for producers *and* consumers.

The rest of the recommendations that follow are in the form of guidance from the Administration, stated with sufficient clarity to provide you with our positions and our best thinking on what Congress should do and to provide opportunity to work with you to craft the final legislative package.

I know many of you do not come from rural backgrounds; this will be the first farm bill for many others. Let me impress upon you one point from my experience: When I served in the House, I always considered farm bills to be among the most important

bills I worked on. But I think this one, my fifth, will be the most important of all; I urge you to give it high priority and I look forward to working with you.

With best personal regards, I am

Sincerely,

Dan Glickman

DAN GLICKMAN
Secretary

■Summary of Administration Farm Bill Guidance

Commodity and Marketing Programs

Commodity and marketing programs are the heart of any Farm Bill. Since they were started in 1930s, these programs have assured the nation an abundant, affordable food supply while providing stable returns on production.

The 1995 Farm Bill can safeguard the food supply by loosening the constraints of some current policies by introducing producer flexibility and program simplicity.

Expansion of planting flexibility provisions would increase the role of market forces in farm production decisions, improve competitiveness in world markets, increase producer returns, reduce the adverse environmental effects of production agriculture, reduce reliance on acreage reduction programs, and simplify farm programs. The following proposals address these issues:

- **Planting Flexibility**. Increase planting flexibility by combining all crop bases into a Total Acreage Base with deficiency payments determined as they are in current programs. Program participants would not be allowed to increase any crop base. The percentage of the base producers could plant to permitted alternative crops would be gradually increased from the current 15 percent to 100 percent. To achieve needed reductions in outlays, the percentage of nonpayment acres could be increased.

- **Targeting Program Payments to Farmers**. Apply a means test, excluding payments to individuals who earn $100,000 or more per year in off-farm income, to target payments to those who depend on farm income to earn a living.

- **Conservation Farm Option**. Permit producers in priority environment areas to receive assured commodity program payments in exchange for producing under a whole-farm conservation plan that can also be used to meet the requirements of other Federal or State natural resource statutes or programs.

- **Revenue-Based Insurance Products.** Offer an integrated pilot approach to revenue protection and risk management by encouraging private crop insurance companies to offer revenue-based insurance contracts (in addition to basic crop insurance), with catastrophic reinsurance offered by USDA.

- **Farm Income Stabilization Plan.** Develop a pilot program to encourage producers to save when revenues are high for years when revenues are low. Producers would deposit a percentage of their eligible gross sales into accounts with limited matching contributions by USDA. Withdrawals would be permitted when current-year gross sales fall below a specified percentage of the previous 5-year average.

- **The Peanut Program**. The program should be converted to a no-net-cost program.

- **Dairy Marketing Program**. Promote reforms to make the program more market oriented, protect producers financially while imposing no new burdens on consumers and taxpayers, increase competition, honor international trade agreements, and provide environmental incentives.

- **Farm Credit**. Improve programs to reduce loan loss potential while assuring that socially disadvantaged groups, beginning farmers and needy, but economically viable, family farmers have access to credit assistance.

Rural Development

Rural America, once primarily agricultural, is now diverse. The rural economy has long been more non-farm than farm.

Rural America includes 83 percent of our land and 21 percent of our people. Yet, many rural areas lag behind their urban counterparts socially and economically. The Clinton Administration is committed to reinvigorating rural America. The following proposals will help the Administration meet that commitment:

- **Investing in Rural Economies**. Ensure that adequate financial resources are available in underserved areas by helping to capitalize Community Development Financial Institutions, expand credit availability through the Federal Home Loan Bank System, establish one-stop shops for rural capital and credit needs modeled on the Small Business Administration's one-stop shops, and form an interagency working group to make specific recommendations for legislative changes.

- **Targeting Programs to Those Areas of Greatest Need**. Target a high proportion of rural community development assistance through a series of initiatives directed at chronically economically distressed communities and those facing economic disruptions. The Rural Performance Partnership Initiative proposed in the FY 1996 budget would better coordinate rural development efforts.

- **Improving the Information Infrastructure for Rural America.** Develop and implement a modern and affordable information infrastructure in rural America through public\private partnerships, an infusion of largely private capital, and effective coordination of policy. Rural America should be assured access to a national information infrastructure be built, run, and maintained by the private sector, with state and federal governments playing key roles in telecommunications policy, regulation, and procurement. Provide for use of universal service funds to equip rural schools and hospitals with telecommunications devices and services.

- **Improving Housing in Rural America**. Expand the lending authority of USDA's Rural Housing and Community Development Service to offer more diversified lending products to consumers, addressing the need for more and better housing for rural families.

- **Improving Water Quality for Rural Americans**. Proceed with the goals of the Water 2000 initiative by expanding eligibility for low-interest loans, increasing funding for grants to construct water facilities, and expanding the technical assistance and training grant program. Eliminate duplicate National Environmental Protection Act environmental reviews.

- **Developing Business Activity.** Initiate efforts to extend business development activities in rural areas through funding, research, and training as well as efforts to build on new uses of agricultural products and value-added processing.

Conservation and Environment Programs

Commodities are a renewable resource; the land on which they are grown, the water and air they share, are not. Tremendous progress has been made in conservation in the last decade. We must preserve these gains while ensuring that the programs work for producers.

Conservation and environmental programs should be extended, made simpler, and made more workable for agriculture. The following proposals would give producers the tools they need to follow environmentally sound practices. Again, the rules of flexibility and simplicity apply:

- **Conservation Reserve Program Reauthorization**. Reauthorize this highly beneficial program and allow USDA to proceed along the lines announced in December 1994 to permit additional program enrollments through the year 2000 that result in a CRP that contains the most environmentally sensitive lands. Encourage state and local interests to participate in setting land-enrollment priorities and offer matching funds to help realize those priorities. Permit economic use of CRP acres, under certain circumstances, for a reduced rental rate.

- **Wetlands Reserve Program**. Amend this innovative, popular program by giving the Secretary flexibility in the timing of compensation payments and the authority to work with other agencies to ensure management efficiency, broadening eligible land to include critical environmentally sensitive areas associated with wetlands, and encouraging state and local interest through matching funds.

- **Highly Erodible Land Conservation**. Revise the conservation compliance/sodbuster provisions to increase flexibility in administration while providing greater soil resource sustainability. Modify the good-faith exemption to ensure that it is applied when a good-faith violation occurs and modify the graduated payment reduction (GPR) provisions to be commensurate with the severity of the violation.

- **Swampbuster.** Amend provisions to allow USDA's Natural Resources Conservation Service field personnel to work effectively and creatively with private landowners on wetland issues. Increase flexibility regarding mitigation, create wetlands mitigation banks, and modify the good-faith exemption and GPR provisions.

- **Coordinated Conservation Assistance**. Improve performance of the many conservation programs conducted by state and federal agencies through a coordinated assistance initiative that provides for: a simplified set of conservation technical and financial assistance tools; state and local conservation efforts supported by better national and regional guidance and planning, and site-specific conservation plans for farms or ranches developed in full cooperation with the producer.

- **Resource Conservation and Development Program**. Extend this popular program to allow local interests to continue to address a host of natural resource conservation and community objectives.

- **National Natural Resources Conservation Foundation**. Create a foundation to foster effective, functional partnerships between government and the private sector, and to expand the ability of the Natural Resources Conservation Service to accomplish its mission and to develop innovative, long-term solutions to natural resource problems.

- **Grazing Lands Conservation Initiative**. Establish a private grazing lands conservation initiative as a coordinated technical and educational assistance effort to support the conservation efforts of private landowners.

International Programs

Agricultural exports are critical to rural income and the national economy. Exports already account for about 20 percent of farm production and about 1 of every 3 acres of harvested cropland. Agricultural trade should be expanded through retention, but improvement, of current trade programs.

The following proposals will position U.S. agriculture to prosper in the global market:

- **The Export Enhancement Program**. Make the EEP more cost effective by encouraging the lowest possible subsidies to achieve the maximum level of exports, and by giving exporters more flexibility to respond to changing market conditions.

- **Export Credit Guarantees**. Commodity Credit Corporation (CCC) export credit guarantees should target higher-credit-risk emerging markets that are undertaking economic policy reforms in conjunction with international financial institutions,

and should encourage export of high-value products by dropping the 100 percent domestic content requirement.

- **Emerging Markets.** Refocus agricultural technical assistance and cooperation activities on emerging markets and link them to USDA's other export programs.

- **P.L. 480 Foreign Food Assistance Programs.** Make the Title I program a more effective tool for market development through more flexible credit terms and increasing the variety of available U.S. commodities to establish long-term trading relationships. Increase Title III administrative funds for private voluntary organizations, cooperatives and international organizations. Authorize the Food Security Wheat Reserve to include a wider range of basic food commodities.

- **Sanitary and Phytosanitary Standards**. Continue commitment to science-based sanitary and phytosanitary standards to facilitate U.S. agricultural exports by endorsing pest-management strategies and authorizing USDA to work with other Federal agencies to control many nonindigenous species that could negatively affect U.S. agricultural production.

Food and Nutrition

USDA's food and nutrition programs represent a national commitment that all Americans will have access to an adequate and healthful diet.

Food programs should continue as a Federal responsibility, but can be made more cost-effective, responsive to nutrition requirements, and adaptable to state and local needs through the following proposals:

- **Food Stamp Program Reform.** Redesign and reform the program to ensure improved program integrity, modernized program delivery, increased state flexibility, nutritional security, response to economic need, and demands for personal responsibility.

- **Enhance Nutrition Education**. Increase emphasis on nutrition for the general population, integrate nutrition education into all domestic food assistance programs, and work with States to implement nutrition promotion activities.

- **Commodity Program Consolidation**. Consolidate USDA's commodity distribution programs while expanding state flexibility to target assistance and streamlining administrative and proocurement processes. This will save money, avoid confusion, and better serve the public.

Research, Education and Economics

The productivity of American agriculture can be largely attributed to the ability of research and education to develop and disseminate modern production practices.

Investment in research must be maintained while ensuring that research is focused on top-priority problems in agriculture, resource use and rural areas. The United States must maintain its world leadership in production agriculture while increasing rural economic opportunity and ensuring the safety of America's food supply.

The following proposals seek to develop a better coordinated, more powerful research and extension agenda for American consumers and American agriculture:

- **National Research and Education Priorities**. Federal research activities should evolve to reflect new national research priorities. Research should focus on: enhancing economic opportunity; protecting natural resources and the environment; having a healthier, better-educated citizenry; reducing risk for consumers and farmers, and enhancing global competitiveness.

- **Agricultural Research Facilities**. Authorize a new Agriculture Research Facilities Study Commission and create a competitive grant program to support facility construction at 1862 and 1890 land grant universities to ensure adequate federal research facilities in an era of tightening budgets.

- **Agricultural Research and Education Partnerships**. Strengthen Federal-State-local partnerships for USDA's research and education programs by establishing a competitively awarded matching grant program for applied research.

- **Research, Education and Economics Policy Council**. Establish a council to help improve linkages between USDA's agricultural research activities and related decision making and operations of the USDA action agencies dependent on Research, Education and Economics' research and education programs.

- **Aquaculture**. Reauthorize the Regional Aquaculture Centers and the National Aquaculture Act of 1980 to establish private aquaculture as a form of agriculture and authorize USDA as the lead Federal agency in its development.

- **National Genetic Resources Program**. Strengthen the National Genetic Resources Program and access to international sources of germplasm.

Food Safety

The Federal government must continue to ensure consumers a safe, as well as wholesome, food supply. Consumers need a system that ensures the safest possible food, regardless of origin. U.S. producers and processors need a system that ensures that U.S. products are welcome in both

domestic and world markets.

- **Meat and Poultry Food Safety Reform**. Meat and poultry food safety reform should be considered independent of the Farm Bill. However, reform must include the core principles of the Pathogen Reduction Act of 1994. The on-going reform efforts of the Pathogen Reduction/HACCP rulemaking process and other administrative actions should emphasize the modernization and enhancement of the inspection system.

- **Interstate Movement of State-Inspected Meat and Poultry Products**. Review the prohibition on interstate shipment of state-inspected meat and poultry products to consider criteria such as improvement of food safety, verification of successful implementation of the HACCP system prior to removal of such prohibition, and assurance that state inspection is at least equal to Federal standards.

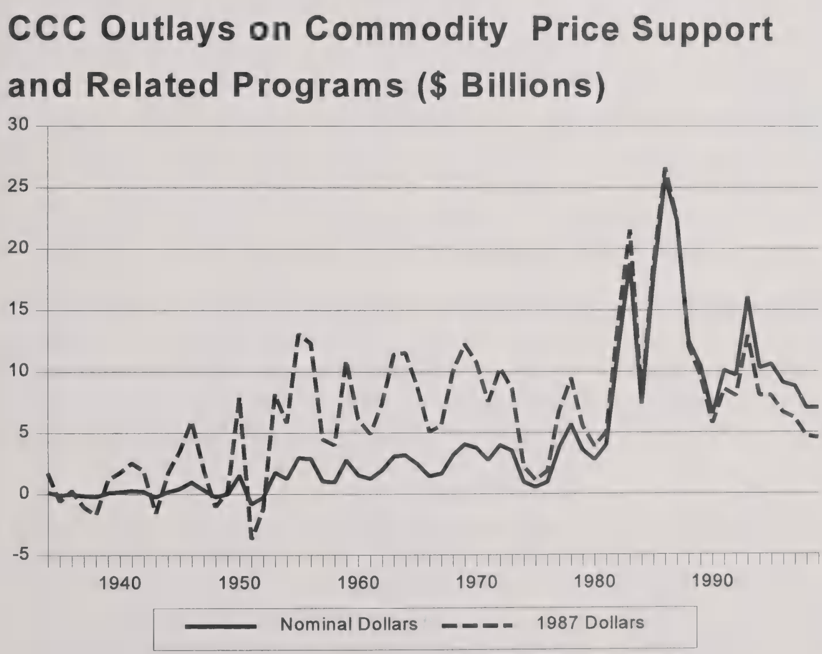
- **User Fees for Meat, Poultry and Egg Inspection**. Implement user fees to recover the costs of providing meat, poultry, and egg inspection beyond a primary approved shift.

- **Pesticide Regulation**. Modernize procedures for setting tolerance levels for pesticide residue, food safety considerations for children, registration procedures of minor-use pesticides, incentives for reduced-risk pesticides, and registration renewal procedures.

Section 1

Commodity and Marketing Programs

Farm programs include price and income support programs (commodity programs), Federal crop insurance, and farm credit programs. Commodity program support was reduced in the 1985 and 1990 Farm Bills although the program structure remained essentially intact. There are income support programs for wheat, rice, corn, sorghum, barley, oats, and cotton. These programs provide a target price for each crop and eligible producers receive a deficiency payment when the market price is below the target price. Producers may also receive commodity loans by pledging the crop as collateral for the loan. To be eligible for payments and loans, producers have to comply with any acreage reduction program in effect and with environmental requirements, such as farming highly erodible land according to an approved



conservation plan (known as conservation compliance). There are also price support programs for sugar, peanuts, tobacco, and milk that provide support to producers through higher market prices rather than direct payments.

Total Commodity Credit Corporation (CCC) outlays for support and related programs averaged $16 billion per year during FY 1986-90 under the 1985 Farm Bill, $11 billion per year during FY 1991-95 under the 1990 Act, and are projected to average less than $8 billion during FY 1996-2000 under a continuation of the 1990 Act.

Federal crop insurance was overhauled in legislation enacted in October 1994. Participants in commodity programs are now required to have catastrophic coverage provided by the Federal Crop Insurance Corporation. This change is expected to eliminate future ad hoc disaster assistance that has cost billions of dollars in recent years. Outlays for the crop insurance program are now expected to average $1.5 billion annually during FY 1996-2000.

Farm credit programs include direct and guaranteed farm ownership and operating loans made to producers who cannot obtain commercial credit. About 130,000 producers have outstanding direct loans. Since 1988, over $14 billion has been written off in direct farm loan principal and interest, reflecting policies of the 1970's and early 1980's that did not limit loans and failed to ensure adequate security. Since the late 1980's a number of statutory changes have limited eligibility to family farmers, established loan limits and other constraints, provided alternative loan servicing methods, and aimed the program to provide further credit only to operations that have the ability to repay their debt.

■*Planting Flexibility*

Issue
The 1990 Farm Bill acknowledged the undesirable effects of requiring program crop producers to plant certain crops in order to be eligible for program benefits. That farm bill allowed producers to plant certain alternative crops on a portion of a farm's crop acreage base without losing program planting history. Further expansion of the planting flexibility provisions would increase the role of market forces in farm production decisions, improve competitiveness in world markets, increase producer returns, reduce the adverse environmental effects of production agriculture, reduce reliance on acreage reduction programs, and simplify farm programs.

Discussion
The 1990 Farm Bill made farm programs more flexible by introducing the concepts of "normal" and "optional" flex acres. Normal flex acres equal 15 percent of a farm's crop base acreage, and optional flex acres equal an additional 10 percent. Producers may plant alternative crops designated by the Secretary of Agriculture on these acres and maintain base, which determines the acreage used in calculating deficiency payments. Producers are not eligible for payments for crops planted on normal flex acres and, thus do not lose payments with respect to those acres if they are planted with designated alternative crops. Producers do lose payments with respect to optional flex acres if they are planted with alternative crops. This tends to result in acreage continuing to be planted in the program crop.

Producers have used the "flex" provisions of the 1990 Farm Bill. Currently, about 9 to 10 million acres annually have been planted with alternative crops, with soybeans accounting for about half of this acreage. Nearly one-third of normal flex acres, 8.5 million acres, were planted with alternative crops in 1994. Producers gave up program payments to plant an additional 1.9 million optional flex acres to alternative crops in 1994. This shift in acreage from program crops to nonprogram crops has helped reduce reliance on annual acreage reduction programs to balance supply and demand.

Since 1992, producers have had the option of planting either corn or sorghum on the total acreages permitted for these crops. This option allows producers to switch from corn to sorghum or from sorghum to corn on up to 100 percent of the total permitted acreage without losing program benefits. In 1994, 1.9 million acres of corn were planted on sorghum permitted acres and 0.5 million acres of sorghum were planted on corn permitted acres.

The acreage planted with alternative crops has been fairly stable since the flexibility provisions were introduced in 1991. Total acreage planted under these provisions gradually increased from 7.3 million acres in 1991 to 10.4 million acres in 1994, even though there has been considerable year-to-year variation in farm prices. Under the special flexibility provision for corn and sorghum, producers planted from 1.0 to 1.9

million acres of corn instead of sorghum and 0.5 to 0.7 million acres of sorghum instead of corn over the past three years. Flex acres have enabled producers to switch to more profitable crops without adversely affecting market stability.

The normal flex provision, by severing the link between payments and production of program crops has given producers added incentive to adopt environmentally beneficial crop rotations and to idle environmentally sensitive land. In 1994, 0.8 million acres were planted with nonprogram crops, excluding oilseeds, and producers chose not to plant an additional 5.1 million acres.

Farm commodity programs remain overly restrictive despite the reforms made in the 1990 Farm Bill. Except for corn and sorghum producers who wish to increase plantings of either corn or sorghum, producers may plant only 15 percent of a farm's acreage base with alternative crops before payments are reduced, and only 25 percent of such acreage with alternative crops before the planting history of the farm is reduced. These restrictions prevent many producers from fully responding to market price incentives, expanding plantings of alternative crops that could increase market revenue, and adopting environmentally beneficial crop rotations.

Guidance

Farm program benefits to producers are based on target prices and loan rates that are established for each program crop. The 1995 Farm Bill should maintain current levels of target prices and the current formulas to establish loan rate levels. However, greater flexibility should be a key feature of commodity programs. An effective way to achieve greater planting flexibility is to combine all crop bases into a total acreage base (TAB). Such a program should include the following features:

- The percentage of the TAB producers could plant with alternative crops designated by the Secretary would be gradually increased from the current level of 15 percent to possibly 100 percent over 5 years.

- Program participants would not be allowed to increase any crop acreage base to prevent producers from using the program to build such base and thereby increase future program payments.

- Deficiency payments would be determined in a manner similar to that of current programs by multiplying the program payment yield by a producer's historical base acreage adjusted for any acreage reduction requirement and the percentage of nonpayment acres, currently 15 percent.

- With planting decisions increasingly tied to market price incentives, acreage reduction programs should become a discretionary tool to be used only when market supply and demand are critically out of balance.

- To achieve a portion of the necessary reductions in outlays recommended in the President's FY 1996 budget, the percentage of nonpayment acres should be increased.

- Producers could be given the option of using additional acreage for environmental purposes without losing payments or planting history, encouraging them to adopt environmentally beneficial crop rotations.

■ *Targeting Program Payments to Farmers*

Issue

USDA farm programs are often criticized for supporting program payment recipients whose primary occupation is not farming and who earn large incomes from off-farm employment. Restricting payments to individuals who earn less than $100,000 annually from off-farm sources would target payments to those who depend on farm income to earn a living.

Discussion

Congressional debate on limiting payments to individual producers dates back to the inception of current farm programs in the 1930s. However, it was not until 1970 that the first piece of legislation was enacted to limit crop payments. The Agricultural Act of 1970 provided a ceiling on crop payments of $55,000 per person. The payment limit applied separately to payments received under the upland cotton, wheat, and feed grain programs. Subsequent legislation established an annual limit of $50,000 per person for specified payments under the annual price support and production adjustment programs. The 1990 Farm Bill continued the annual limit of $50,000 per person for diversion and deficiency payments, with higher limits on other farm program payments.

Farm operators whose major occupation is farming receive a larger share of government payments than those who do not farm full time. In 1993, farms whose operators worked primarily on the farm received an average government payment of $17,200. These payments represented 84 percent of total payments. About 17 percent of farm operators are retired and they received about 5 percent of total payments. Excluding payments to individuals who are not primarily involved in farming would reduce farm program costs and help maintain the safety net for full-time farmers.

Survey data compiled by USDA suggest that farm operator households that earned more than $100,000 off the farm received about 2.3 percent of the total deficiency payments made in 1991. This group of households was about 2 percent of the total receiving payments, and had a combined farm and off-farm income averaging $230,000. Their net worth is about double that of the average farm operator household.

According to Internal Revenue Service tax data, less than 2 percent of individuals filing a Schedule F have off farm income greater than $100,000.

Guidance

- Program payments should be targeted to individuals primarily involved in farming by excluding payments on land to individuals who earn $100,000 or more per year in off-farm income.

■ *Conservation Farm Option*

Issue

The direct link between commodity program benefits and plantings of program crops probably encourages some producers to maintain acreages of program crops, even though switching to alternative crops or production practices would be more environmentally sound. Moreover, producers in some areas of the country face greater environmental concerns than in other areas. Producers should be offered incentives to adopt crop rotations and other site-specific conservation practices without the fear of losing base or government benefits.

Discussion

Since the 1985 Farm Bill, agricultural policy and programs have improved their environmental performance through such legislative initiatives as sodbuster, swampbuster, conservation compliance, frozen program yields, flex acre provisions, the Integrated Farm Management Program Option (IFMPO), the Conservation Reserve Program (CRP), the Wetlands Reserve Program (WRP), and the continuation of conservation financial and technical assistance programs. A major step toward further reducing any remaining adverse environmental consequences of production agriculture would be to increase the compatibility of commodity programs and conservation programs.

Deficiency payments and eligibility for price support for some crops depend on a producer planting a program crop within a specified percentage of a farm's crop acreage base determined by historical plantings of that crop. This direct link may preclude some producers from adopting environmentally beneficial crop rotations and farming practices. Steps were taken in the 1990 Farm Bill through the creation of the planting flexibilities provisions.

In addition, the 1990 Farm Bill authorized the IFMPO, a voluntary program offering producers additional flexibility to adopt environmentally beneficial cropping practices. The objectives of the IFMPO were to help producers adopt integrated, multi-year, site-specific farm management plans by reducing farm program barriers to conservation practices; and to help producers improve and conserve soil and water on farms by converting land to resource conserving crops (RCC's) according to an approved IFMPO plan, while protecting producers' payments and base history. The 1990 Farm Bill required, to the extent practical, that 3 to 5 million acres of cropland be enrolled in the program each year during 1991-95.

In exchange for being eligible for deficiency payments on payment acreage devoted to RCC's and retaining their crop acreage base history, producers agree to comply with acreage reduction requirements; devote, on average, not less than 20 percent of all crop bases to resource conserving crops; and follow an IFMPO plan consisting of resource conserving crop rotations. These and other restrictions have limited participation in the IFMPO. In 1994, a total of 321,474 acres were enrolled in the IFMPO.

The IFMPO concept provides the foundation for establishing a new program option that rewards conservation and environmental performance in areas with a special need for soil, water, or wildlife habitat conservation.

Guidance

Implement a Conservation Farm Option (CFO) that would permit producers in selected environmentally sensitive areas to receive a commodity program payment guarantee in exchange for producing according to a whole farm conservation plan. Basic elements of the CFO should include the following:

- USDA, working with other Federal, state and local agencies and others, would identify areas with critical natural resource problems associated with row crop agriculture. These critical areas might be watersheds, or some other geographically-bound area sharing a critical natural resource concern, such as habitat for threatened or endangered species, or wetlands or water quality protection. A voluntary program would be established within each area.

- Participating producers would have to adopt an approved integrated natural resource plan. The plan would address the most critical natural resource and environmental concerns of the area.

- At the request of the producer, the plan could also address natural resource concerns on the property that are potentially subject to Federal jurisdiction and regulation.

- Participating producers would be assured over some specified time period (e.g. 10 years) a level of direct payments equivalent to estimated deficiency payments under the provisions of the 1995 Farm Bill for that time.

- Producers who implement a plan that complies with applicable Federal natural resource or environmental laws or regulations with the agreement of the relevant Federal and State agencies would not be subject to any further requirements under those same laws or regulations for the life of the plan (e.g. Endangered Species Act).

- The CFO would be able to address conservation and environment issues on farm program participants' farms in priority watersheds. These same watersheds may have non-farm program participants whose operations should be considered for treatment if the problems of the watershed are to be successfully addressed. There also will be instances where a watershed may have so few farm program participants, or so few that are contributing to the natural resource concerns, that the CFO cannot be used to address them. It is for this reason that the Coordinated Conservation Assistance (CCA) initiative discussed in Section 3 is proposed. The CCA would be able to address the concerns that the CFO cannot address. Clearly, the watersheds or geographic areas identified under both activities must be well-coordinated by the USDA agencies involved.

Revenue-Based Insurance Products

Issue

Revenue-based insurance programs have received much attention as potential alternatives to price and income support programs and crop insurance programs offered by the Federal government. An integrated approach to revenue protection, offered through private crop insurance companies, could provide producers with a simpler, more flexible way to stabilize farm incomes.

Discussion

Under revenue insurance, producers receive payment for shortfalls below a revenue guarantee, regardless of whether the cause was low prices or low yields. The revenue insurance approach is generally envisioned as combining the features of two major farm programs--crop insurance and deficiency payments--into a single program.

Most revenue insurance proposals have suggested that the Federal government offer revenue insurance in lieu of crop insurance and deficiency payments. But private market alternatives exist as well. Some crop insurers currently offer producers crop insurance policies that pay farmers for the replacement value of their crop. These policies offer producers price, as well as yield, protection when they incur production losses.

Under the Crop Insurance Reform Act, the private sector may offer, subject to approval by the Federal Crop Insurance Corporation (FCIC), revenue insurance products.

Guidance

- A fiscally prudent role for the Federal Government would be to develop on a pilot basis catastrophic reinsurance approaches that private insurance companies could use in addition to commercially available reinsurance, as well as price and yield futures and options, to offset their portfolio risks. One such option would be to allow private insurance companies to set their own rates, subject to approval by FCIC. Delivery costs would be built into the rate. USDA would subsidize the cost of the premium not to exceed the value of the current subsidy for buy-up crop insurance policies, plus reasonable delivery costs. To augment commercially available reinsurance, USDA would offer catastrophic reinsurance coverage to private insurance companies to offset their portfolio risks.

■Farm Income Stabilization Plan

Issue

A fundamental goal of farm programs has been to stabilize producer revenue. An income stabilization account would encourage producers to save when revenues are high for years when revenues are low.

Discussion

Producers use a variety of tools to manage their income streams. These tools include savings and timing of input and capital purchases for tax purposes.

Canada currently offers a program that subsidizes producers to save in years when their income is high, for years when income is low. Under their Net Income Stabilization Account (NISA), producers may contribute a portion of their farm sales in each year, with the government matching farmers' contributions up to a maximum level. Interest is earned on the account at above-competitive rates. Farmers may withdraw funds from the account in years when their farm incomes fall below a pre-specified trigger.

NISA-type programs may encourage risk management strategies that farmers already undertake to a limited degree. While it is unlikely that such a program could fully insure a producer against large catastrophes, it could greatly enhance other risk management tools such as futures and options, and crop insurance.

Income stabilization programs are generally consistent with the internal support disciplines established under the General Agreement on Tariffs and Trade (GATT), provided they don't distort production.

Guidance

- To encourage producers to save when revenues are high for years when revenues are low, a pilot program would be developed. Eligibility for the pilot program would be restricted to selected program crop participants. Pilot participants would agree to forego deficiency payments in the amount of any subsidies provided under the pilot.

- For example, participating producers could deposit contributions of up to a certain percent of eligible gross sales. USDA would match contributions. Producers would be entitled to make additional deposits (unmatched by government deposits) up to some maximum level. Producers could withdraw funds from their account if the current year gross sales or net income fall below a specified percent of the previous 5-year average.

The Peanut Program

Issue

Rising government costs led to a major reform of the peanut program in 1977. The reformed peanut program was designed to support peanut prices through higher consumer prices rather than government outlays. In recent years peanut program costs have begun to increase. The peanut program should be converted to a no-net-cost program.

Discussion

Farm legislation in 1985 and 1990 reduced outlays costs for other commodity programs but left the peanut program essentially unchanged. The program uses a marketing quota to limit supply and establishes a minimum price for peanuts used domestically for food and seed. The support price for quota peanuts ratchets up to reflect increases in the cost of production. The domestic quota price is about twice the world price. Current law sets a minimum quota level which currently exceeds demand for domestic quota peanuts. There are no constraints on the production of peanuts for export or crushing but strong controls apply to marketing these peanuts. These peanuts are called "additionals" and are eligible for a price support loan rate set annually to assure no government loss.

Domestic demand has declined because of rising prices and perhaps a shift away from snack foods with high fat content. Imports of peanut butter and more recently peanuts under NAFTA have displaced demand for higher priced U.S. grown peanuts. The Uruguay Round (UR) agreement establishes tariff rate quota for peanut butter and peanuts. Although peanut imports under UR access will be relatively small, displacement of domestic peanuts is likely.

The minimum marketing quota set by law and the high quota support price represent a price-quantity combination which does not correspond to consumer demand. The result is that CCC acquires the surplus peanuts at the quota support price and disposes of them at the lower world price, assuring a loss on every ton.

Extension of the current program virtually ensures continuing government cost from the peanut program. Only an unforeseen increase in commercial demand could ameliorate losses.

Guidance

- The Administration would support efforts to convert the peanut program to a no-net-cost program.

■Dairy Marketing Programs

Issue

The cost of the dairy price support program has fallen rapidly over the past decade. However, increased use of Bovine Somatotropin (BST) and import access under the Uruguay Round agreement, coupled with no flexibility to adjust the support price downward, could cause dairy price support program outlays and government dairy stocks to creep up over the next several years. In addition, waste handling on dairy farms is also an important ingredient in any effort to reduce non-point source water pollution in threatened and impaired watersheds.

Discussion

The objectives of Federal dairy policy include assuring consumers an adequate supply of milk at reasonable cost. To accomplish this objective, the Federal government operates two interrelated programs--price support and milk marketing orders. Milk is the only commodity with both order pricing and price support programs.

Price Supports. Milk prices are supported through government purchases of storable dairy products, such as butter, cheese, and nonfat dry milk. To prevent imports from undermining the dairy price support program, imports of dairy products are restricted. The Commodity Credit Corporation (CCC) administers the price support program by announcing purchase prices for butter, cheese, and nonfat dry milk.

Government inventories of dairy products are at their lowest levels since the 1970s, and manufacturing milk prices are presently nearly $1.50 per cwt above the support prices. Outlays for the dairy program, which peaked in the early 1980s at $2.5 billion, fell to $258 million in FY 1993 and declined to $158 million in FY 1994. The Department estimates CCC outlays for the dairy price support program will total $1.0 billion during FY 1996-2000 with no change in the program.

Milk Marketing Orders. Federal milk marketing orders provide assurances of minimum prices to farmers, accurate weights and tests, timely payments, and available market information in areas where producers have voluntarily adopted them. Orderly marketing helps in interstate commerce and prevents unreasonable fluctuations in milk supplies and prices that would be detrimental to producers and consumers.

Among the important features of Federal marketing orders is the use of classified pricing, which provides for minimum prices that reflect the end use of milk. These differentials between end use values are intended to account for the additional costs associated with producing milk for the time-sensitive fluid milk market, compared with manufactured dairy products.

Currently, 38 Federal milk marketing orders cover two-thirds of all milk sold by producers. Milk marketed in California, the nation's leading state in milk production,

is not regulated by Federal milk marketing orders, but by a similar State order. Several other smaller milk marketing areas within states are regulated by State orders.

Milk marketing orders require that the price paid by handlers for milk used for bottling be at least a given amount higher than the price for grade B (manufacturing) milk that is competitively traded in Minnesota-Wisconsin (the M-W price). At Eau Claire, WI the minimum differential between the M-W price and milk used for fluid product is $1.04 per cwt.

What farmers actually receive, however, is a blend price, or a weighted average of prices received for all milk marketed in the order area, in all uses (fluid, soft products, and manufactured or hard products). Since the blend is a weighted average, it is higher than the manufactured price for milk, but lower than the price for milk used in fluid products. Every producer in the pooling area receives the same blend price, regardless of how the milk is used. So, all producers benefit from the higher price for fluid milk, and no producer disproportionately bears the lower returns from milk in the manufactured products market. However, the blend price may give dairy producers an incentive to overproduce since the price producers receive exceeds the value of milk used in processed products, which is the residual use of milk produced in excess of fresh market needs.

In general, the minimum price differential (between bottled milk and milk used in processing) rises with the distance from the manufactured base point in Eau Claire. Some argue that the minimum price differentials, which underlie the blend prices, provide incentives for increased local production, leading to milk production in excess of fluid needs. In principle, this production could raise the cost of the dairy price support program if the CCC must purchase excess dairy products.

Guidance

There has been little agreement on program reforms for dairy marketing issues. The Administration has reviewed the current price support and Federal milk marketing order programs and believes that the 1995 Farm Bill process could address issues in dairy programs to promote the following policy objectives:

- Increase economic efficiency in the dairy sector by making the dairy program more market oriented.
- Protect dairy producers from undue financial stress and, at the same time, impose no new burdens on U.S. consumers and taxpayers.
- Promote regional and international competition in dairy markets.
- Honor the spirit and letter of our international trade agreements.

- Provide dairy producers with appropriate incentives for environmentally beneficial practices.

The Administration encourages reforms that promote these objectives. Some examples of specific measures that could advance these ends follow.

  - Change the dairy price support program to avoid any prospect for accumulation of government dairy stocks. For example, in exchange for reducing dairy marketing assessments, the milk price support level could be phased down.

  - Revise marketing order authorities to reduce incentives for excessive milk production and to encourage regional competition. This could entail broader scope or flexibility in marketing order authorities to make industry-consensus changes through administrative procedures. Some examples include phasing down the minimum differential for milk used as fluid or revising statutory authority to permit adoption of an alternative order structure, such as multiple basing points.

  - Encourage environmentally beneficial practices by dairy farmers. A broader set of dairy farmers in threatened and impaired watersheds could be required to adopt measures that advance desirable environmental objectives, such as confined animal waste handling procedures. These new compliance costs could be partially offset through mechanisms such as grants to small farmers and low interest loans, as suggested in the section on "Coordinated Conservation Assistance."

■*Farm Credit*

Issue

USDA's farm credit programs have provided an important source of financing since the 1930s for producers who have potential to remain in farming but could not receive credit from commercial sources. While providing vital assistance to many family farmers, the farm credit programs have incurred substantial losses stemming from a variety of factors including natural disasters and the agricultural credit crisis of the mid-1980s. Providing farm credit should continue as an important Federal role but program changes should be made to avoid the types of loan losses that have occurred over the past decade.

Background

Farm operating, ownership, and emergency loans have been made by a succession of USDA agencies since the 1930s. The farm loan program is now operated by the Consolidated Farm Service Agency (CFSA), which recently assumed the responsibility from the Farmers Home Administration (FmHA). CFSA direct and guaranteed operating loans provide credit for annual production expenses and purchases of livestock, machinery, and equipment. Direct and guaranteed farm ownership loans assist producers in acquiring their farming or ranching operations. Direct emergency loans assist producers in disaster designated counties having production or physical losses.

During FY 1994, over $800 million was obligated for direct loans and over $1.8 billion for guaranteed loans. Over the past decade there has been a shift from direct to guaranteed loans. However, direct loans continue to be a critical source of credit for many producers, particularly for beginning and socially disadvantaged producers, producers in need of financial supervision and counseling, and producers in areas where commercial banks do not participate in loan guarantee programs. Since the peak of the farm financial crisis in 1986, farm debt has declined, farm credit appropriations have been reduced, and the number of direct loan borrowers has declined from 270,000 to 131,000 in 1994.

Despite the importance of CFSA farm credit programs to the economic health of many family farmers, there has been continuing concern about the performance of the direct loan programs. The combination of a very permissive emergency loan program enacted in 1975, a series of natural disasters, and the farm financial crisis of the mid-1980s led to FmHA holding a large portfolio of nonperforming loans. The Agriculture Credit Act of 1987 provided write-down and write-off opportunities for these financially troubled producers. Between FY 1978 and FY 1994, loan losses amounted to nearly $16 billion of which 66 percent were on emergency and economic emergency loans.

The farm credit programs continue to face loan losses whose origins date to the 1980s. CFSA has limited legal authority to collect outstanding debt and to perform certain servicing functions that could help facilitate loan repayment.

Guidance

Farm credit programs should be improved to reduce loan loss potential while assuring that socially disadvantaged groups, beginning farmers, and needy, but economically viable, family farmers have access to credit assistance. Program changes that should be made include:

- Deny program eligibility to borrowers who have had previous loans with the CFSA resulting in a buyout or other debt settlement. Borrowers whose loans are restructured would continue to be served; only those whose loans were settled because repayment was not expected in the future would be denied loans.

- Remove statutory requirement mandating annual production loans to delinquent borrowers.

- Remove or reduce statutory time frames for notification, acceptance, and completion of servicing actions on delinquent loans. Borrowers could be notified of the availability of primary loan servicing when the loan is 30 days delinquent rather than the present 180 days. Earlier servicing would allow the agency to take prompt action to resolve delinquencies and avoid administrative costs and interest accrual on overdue loans.

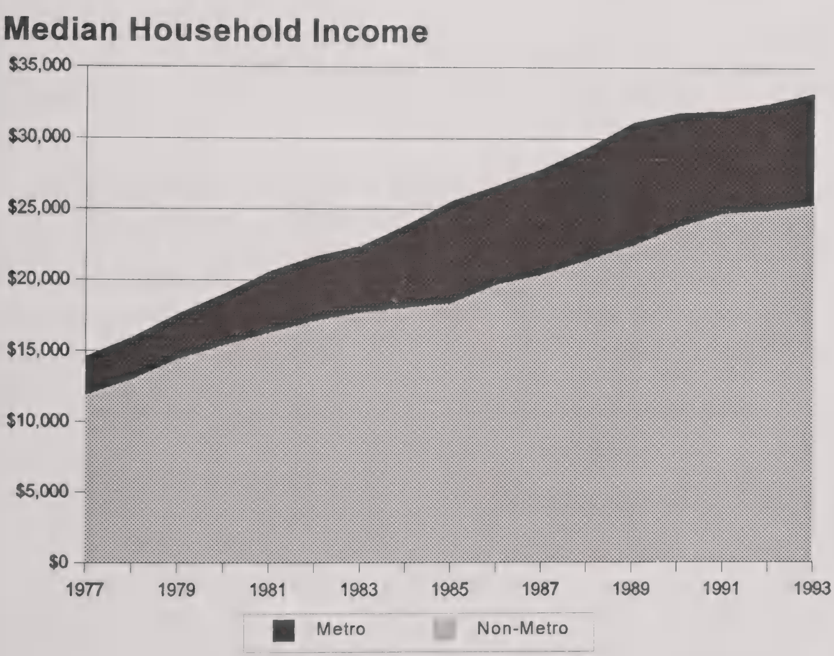
- Offer delinquent borrowers who do not qualify for loan restructuring the chance to purchase their debt at current market value rather than the agency's current policy of buying out at net recovery value (the value the government would receive through liquidation) with a recapture agreement if the property is eventually sold. If the borrower buys out at market value with no recapture agreement, the agency would reduce administrative costs by not having to monitor the recapture agreement and would receive a higher portion of the debt at settlement of the loan.

Section 2
Rural Development

Rural America, once primarily agricultural, is now very different from region to region. The rural economy has long been more non-farm than farm. Although some of the Nation's 65 million rural Americans still live and work in agriculturally dependent communities, most do not. During the last 20 years, the percentage of the rural workforce employed in farming has declined from 14 percent to about 8 percent. At least 80 percent of rural residents are supported by non-farm employment.

Neither the farm nor the non-farm portions of rural America are islands unto themselves. The viability of one augments and supports the viability of the other. For example, more than 40 percent of farmers work off the farm more than 100 days during the year. Rural America needs a healthy agricultural sector but it also must have health clinics, affordable housing, sustainable agricultural related ventures, water and sewer systems, fire stations and town halls, and businesses and industries.

Rural places still lag behind their urban counterparts as measured by a number of economic and social indicators. Chronic problems in Rural America persist, including



lack of employment opportunities, poor housing, high poverty rates, high illiteracy and low levels of education, lack of development skills within the local governments, a general lack of institutional and organizational infrastructure, and a lack of access to credit.

Thirteen percent of rural Americans have incomes below the poverty line, which almost matches the poverty rate for central cities. Rural poverty is particularly pervasive and persistent within several concentrated geographic areas, such as the lower Mississippi Delta, Appalachia, Indian reservations, and along the U.S.-Mexico border.

Lack of affordable housing remains an especially acute problem in rural areas. Poor non-metro households frequently pay more than they can afford for housing and many families pay more than half of their annual income for housing. The last national census indicated that 3.8 million very-low income households were not able to find affordable units. There is a growing reliance upon used, poor-quality mobile homes.

Another facet of the rural housing problem is homelessness. It is well known to exist, but is largely invisible. The rural approach to residential instability involves doubling up, moving frequently, occupying substandard housing, or illegally siting manufactured housing. The primary issues contributing to rural homelessness are directly related to the overall need for rural development, affordable housing, economic support of the working poor, and assistance to prevent the loss of adequate housing.

Not all areas are in difficulty. Some rural areas are growing or stable because of tourism, in-migration of retirees, and industrial and government relocations. But other areas, facing remoteness and economic disparities, are suffering population declines. And, young people continue to leave rural areas.

As a matter of policy, the Federal government should commit to the principle of focusing much of its limited rural development resources to people and places with the greatest need for development. These are the 500 persistently poor counties, those sections of the country where the trajectory of poverty and economic depression has historically headed downward: the Colonias of the Southwest, the Delta of Mississippi, the Appalachian region, and the Native American lands.

Federal efforts must overcome past duplication and fragmentation in the delivery of resources for rural development. USDA commits to leading this effort. This will involve coordination of Federal activities and the utilization of USDA's extensive field network to facilitate local rural initiatives.

■*Investing in Rural Economies*

Issue

As we enter the 21st century, the principal challenge facing rural economies is to build the capacity to survive and prosper in the global marketplace. This means creating sustainable new businesses that generate strong and rising incomes for workers and that can help reverse the downward economic spiral that plagues many regions. Current public policies provide neither enough tools nor the right mix of tools to attract financial capital for rural economic revitalization.

Discussion

Rural America is served by a wide variety of financial institutions, including a sound system of community banks and the Farm Credit System--a network of cooperatively owned banks which finances farms, farmer-owned cooperatives, rural utilities, and some rural housing. Although these institutions generally satisfy the normal credit needs of farmers and others in rural communities, some specialized but important forms of credit and capital appear to be less readily available than in urban areas. In particular, business start-ups and other high-risk rural ventures tend to be underserved. The greatest needs are for equity capital, secondary market capital and credit, and infrastructure and economic development financing. A recent study by the American Bankers Association identified a number of problems in rural credit markets, including: 1) a shortage of lendable funds in some areas, 2) a lack of a secondary market for economic development loans originated by rural financial institutions, 3) the unavailability of sufficient equity capital for financing rural businesses, 4) a lack of technical expertise in economic development lending, and 5) a failure to support intergenerational transfers of existing farms and community businesses.

At the National Rural Conference in Iowa in April 1995, President Clinton and Secretary Glickman heard overwhelming support for efforts to promote investment in rural America. It is imperative that the 1995 Farm Bill expand rural economic opportunity by ensuring rural communities have the tools to attract capital.

Guidance

To ensure that adequate financial resources are available in underserved areas, the Administration proposes the following:

- Utilize the resources of financial institutions in rural areas to help capitalize Community Development Financial Institutions (CDFIs). CDFIs offer capital and technical assistance to low-income communities, the areas most lacking in capital. Despite great potential for promoting economic development in rural America, CDFIs currently face limited funding.

- Expand credit availability by encouraging the use of the Federal Home Loan Bank System's general advances program and lower-cost Community Investment Program for rural economic development.

- Implement regionally based one-stop capital shops to provide comprehensive financial and business technical assistance to firms in rural areas. The capital shops would be geographically dispersed and tailored to address regional (including cross-state) needs. They would aggregate the expertise and resources of USDA, the Small Business Administration, and other Federal agencies; coordinate with regional financial institutions as well as local and State governments; and serve to focus regional economic development efforts.

- Authorize commercial banks to underwrite municipal revenue bonds.

- Authorize bank holding companies to devote a small percentage of their assets (e.g. 5 percent) to venture capital investments, including rural investments.

- In addition, the Administration will form an interagency working group to make specific recommendations for legislative changes. This group will draw on the expertise of the private banking community as well as representatives of the Farm Credit System, Farmer Mac and other organizations to examine options for rural credit. The working group will complete its recommendations within the next 45 days.

■ *Targeting Programs to Those Areas of Greatest Need*

Issue

Traditionally, rural development programs have been delivered on a "first-come, first-served" basis. Too often, this has ensured that rural America's poorest and most isolated communities have gotten the fewest resources. The Administration believes that this disparity should be corrected.

Despite the Congressional intent embodied in the Rural Development Policy Act of 1980 to provide the Secretary of Agriculture the authority and responsibility to address the full spectrum of rural development needs, there is a need for mechanisms and incentives at the Federal level to encourage participation of other Departments and Agencies in rural development efforts. In addition, rural development programs, like most categorical programs, are too restrictive and too narrowly focused to provide the enough flexibility to respond to the needs of most rural communities.

Discussion

USDA initiated the State Rural Development Councils as a means of bringing all of the rural development players within a State to the table to resolve problems with Federal programs, eliminate statutory and regulatory barriers, and cooperatively respond to State and local needs. While there have been some successes in this area, such as the Kansas Rural Development Council developing a single application for all federal rural water finance programs, more needs to be done to encourage cooperation among the Federal departments.

Currently, the mix of funding for various rural economic and development programs often does not match local needs. In its FY 1996 budget, the Administration has proposed the Rural Performance Partnership Initiative (RPPI) to provide the flexibility needed at the State level to adjust the mix of assistance under various programs.

With RPPI, USDA has developed an approach that enables its field structure to deploy financial and technical resources to initiate development projects. RPPI represents a change in the culture of Rural Economic and Community Development that gives staff the direction and authority to work with State and local officials on development of rural ventures. RPPI can eventually become a conduit for the coordinated delivery of other federal agencies' funds to rural America.

The Administration also found that resources can be focused on selected geographic regions with positive results. This approach involves concentrating attention on a selected area and addressing the problem by: combining public and private resources, targeting program resources, and coordinating the delivery of resources from other Federal departments and agencies. This is the premise for the Empowerment

Zones/Enterprise Communities (EZ/EC) program which also starts with locally determined plans jointly developed by business, local governments, civic organizations, and other community-based organizations. Regional initiatives can create the framework for support and implementation of local development strategies, but should not create new regional economic development planning structures. Planning should be at the grassroots level, with broad participation from both the public and private sectors. Regional initiatives can augment local efforts through technical assistance and improved access to Federal and State resources. They need to be based on partnerships.

Guidance

- A very high proportion of rural community development assistance should be targeted to chronically economically distressed communities and places facing economic disruptions. Examples include:

    - **Pacific Northwest Timber Initiative**--USDA has the lead role in developing financial assistance initiatives to mitigate the effects of the declining timber and fishing industries. In the FY 1996 budget, USDA has earmarked $85 million in direct loans, guaranteed loan and grant programs, including business development, community facilities, and water and waste disposal programs.

    - **Empowerment Zones/Enterprise Communities (EZ/EC) and Champion Communities**--USDA has the lead responsibility for the 3 Empowerment Zones and the 30 Enterprise Communities authorized by the Omnibus Budget Reconciliation Act of 1993. The FY 1996 Budget includes earmarks totaling $125 million in a variety of direct and guaranteed loan and grant funds for business development programs, rental housing, community facilities and water and waster disposal programs.

    - **The Delta Initiative**--USDA should take the lead in a Federal-State-local initiative focusing on poverty alleviation in the region covering the lower Mississippi River and surrounding areas.

    - **The Great Plains Initiative**--USDA, in cooperation with other governmental entities, should create a redevelopment and environmental improvement program for the Great Plains based on the recommendations of the newly created Great Plains Commission.

- **The Native American Initiative**--Native American governments are to be given special consideration when working with USDA programs, program funds or cost-sharing. This Administration has made improved relations with tribes a high priority and created a multi-departmental effort to design new approaches to Native American economic development.

- **The Colonias Initiative**--The poverty of the Colonias areas along the U.S. - Mexico border is profound. USDA has spent $75 million over the past three years, primarily in water and sewer improvements in this area. But the effort pales in comparison to the awesome scale and severity of need. Here, USDA proposes to launch a more focused initiative with the sense of urgency that is normally reserved for natural disaster relief. Using its rural coordinating responsibility, and its new approach to investing typified by RPPI, USDA will work with HUD and other departments of Federal government to address the Colonias problem.

- **The Appalachian Initiative**--While Federal, State, and private organizations have been at work in Appalachia for decades and there is evidence of improving conditions (especially in counties covered by the Appalachian Regional Commission), significant areas of this predominantly rural region remain isolated and desperately poor.

- To coordinate rural development efforts, the following steps should be taken:

    - The Consolidated Farm and Rural Development Act should be amended to incorporate the provisions of the RPPI.

    - The Rural Development Policy Act of 1980 (1980 Act) should be amended to authorize joint financial participation of various departments in projects, demonstration or pilot projects, and in the support of the State Rural Development Councils. Many Departments wishing to participate in joint ventures, including financial support of the State Rural Development Councils, are unsure of the authority to do so because of other provisions of law.

    - The 1980 Act also should be amended to require that a single application for financial assistance is sufficient for projects in which more than one Department or Agency participates.

- The 1980 Act also should be amended to provide authority to enter into cooperative agreements with States when it is mutually beneficial to both the Federal government and the states. Presently, cooperative agreements are authorized only for research and education.

■*Improving the Information Infrastructure for Rural America*

Issue

A modern, sophisticated telecommunications infrastructure will mean more jobs, improved education, and better health care for rural communities. Earlier in this century, public/private efforts enabled farms and rural homes throughout America to get access to electricity and telephone service. Similarly, to develop and implement a modern and affordable information infrastructure in rural America, we will need public/private partnerships, an infusion of largely private capital, and effective coordination of policy.

Discussion

A national information infrastructure (NII) will have dramatic and lasting effects on the 65 million Americans living in rural communities. Already, information technologies make medical services more accessible and less expensive for rural residents. Farmers get vital information such as commodity prices and weather information through telecommunications. And rural schools that are connected to the information superhighway use computer networks and distance learning to enhance education.

Unfortunately, many rural communities today are not in a position to take advantage of these new opportunities. For example, while almost 80 percent of libraries that serve cities of 250,000 or more people have a connection to the Internet, only 17 percent of rural libraries do. Moreover, many Americans living in rural areas find it prohibitively expensive to use the Internet and commercial on-line services because they must pay for a long-distance call to the nearest "point of presence" of their network service provider.

USDA's Rural Utilities Service (RUS) lends money to small rural telecommunications companies and cooperatives to build advanced information infrastructure; for every dollar RUS lends, borrowers invest $4.50 of their own funds. In FY 1994, $12.2 million in RUS funds generated more than $500 million in federal loans and loan guarantees; those loans and loan guarantees in turn leveraged $2 billion in private investment in rural telecommunications infrastructure. In a typical year, RUS borrowers will use the limited federal subsidy to provide initial telecommunications services to 62,119 families, install 6,000 miles of fiber optic facilities, and purchase 214 new digital switches.

RUS also operates a Distance Learning and Medical Link Grant Program, which has already given hundreds of students attending rural schools in 28 states access to previously unavailable courses, and has established medical link facilities for more than

a hundred hospitals and clinics in 19 States. Proposed for FY 1996 is a new $100 million loan program to finance Distance Learning and Telemedicine projects throughout the country.

The National Agricultural Library (NAL) is a reservoir and disseminator of information on all aspects of agriculture and rural development. NAL is the coordinator and primary resource for a nationwide network of State land-grant university libraries and USDA research libraries that serves Federal, State and local officials as well as the general public. The Administration's FY 1996 budget requests a $1 million increase for the Electronic Information Initiative to further NAL's goal to become a fully electronic library.

Other Federal agencies also provide support for rural telecommunications. The Department of Education (DOEd), for example, is working to provide telecommunication linkages among all classrooms across the nation. The National Telecommunications and Information Administration (NTIA), with the Department of Commerce, makes grants to rural schools, hospitals and local governments to improve their service delivery through advanced telecommunications. And the Rural Telemedicine Grant Program, managed by the Office of Rural Health Policy at the Department of Health and Human Services (HHS), is developing ways to increase the cost effectiveness and quality of telemedicine in rural areas. With USDA as a partner, these agencies could afford to fund a larger number of meritorious proposals.

Guidance

The National Information Infrastructure will be built, run, and maintained by the private sector, but State and Federal governments have key roles to play, particularly in the area of telecommunications policy, regulation and procurement.

- In telecommunications reform legislation currently before Congress, adhere to the principle of universal service by ensuring that rural Americans have affordable access to the National Information Infrastructure. Provide for use of universal service funds to equip rural schools and hospitals with telecommunications devices and services.

- As USDA connects its field offices electronically, explore ways to leverage this procurement to encourage network service providers to locate "points of presence" in rural areas. Work with states to identify regulatory policies that will make access to on-line services more affordable.

- Accelerate USDA efforts to deliver services electronically and put on-line information of particular interest to rural Americans (e.g., data on domestic and international markets for agricultural products, soil data for natural resource planning, and information on integrated pest management).

- Encourage USDA to partner with NTIA, DOEd and HHS and pool resources to fund meritorious proposals in rural areas.

- Enhance efforts to expand USDA's technical capacity to use new information and communications technologies, through training and intergovernmental personnel transfers.

- Increase training and technical assistance on rural telecommunications and information infrastructure by the Cooperative Extension Service. Explore making information infrastructure a "National Initiative" under CES.

- Continue to focus the Rural Utilities Service on cutting-edge telecommunications technology.

- Designate a limited number of "information grant" universities that would function as modern-day analogs to land grant universities in areas of rural poverty. The federal government would award grants on a competitive basis to colleges and universities that provide telecommunications access to rural residents, ranging from telemedicine and distance learning to telecommuting. The federal government is itself a major source of data and information that could be made accessible to rural businesses and consumers in this way.

- Privatize the Rural Telephone Bank; the resulting ability to leverage the net worth of the Bank will mean a strong and continuous source of financing for rural telecommunications.

- Establish a Rural Telecommunications Clearinghouse to demonstrate "best practices" and thus minimize duplication of effort in building rural telecommunication systems.

■Improving Housing in Rural America

Issue

There is a significant lack of affordable housing for home purchases and rental properties for many rural citizens. There also is a growing need to rehabilitate the existing stock of rural housing.

Discussion

The quality and availability of safe, sanitary, and affordable housing for low- and moderate-income families in rural areas is vital to sustaining economic viability and growth. The programs available through USDA's Rural Housing and Community Development Service (RHCDS) help those needing assistance in rural areas. The programs are vital components of the community and economic development mission. With diminishing Federal resources, RHCDS will expand initiatives to leverage additional public and private capital to sustain the improvements in the availability and quality of housing for rural families. The recommended changes would occur outside of the Farm Bill process, since these programs are not under the jurisdiction of the House and Senate Agriculture Committees.

Guidance

- The guaranteed rural housing loan program can be enhanced by expanding the current lending authority of RHCDS to offer more diversified lending products to consumers, including the ability to use the guaranteed program to refinance existing direct single-family housing loans. The 30-year, fixed rate mortgage is overwhelmingly favored by borrowers in a low-interest rate environment. However, more innovative products such as 15-year, adjustable-rate mortgages, bi-weekly mortgages, and participation loans, would allow RHCDS to meet the needs of consumers faced with high or fluctuating interest rates, and offer products similar to commercial lenders that would encourage increased participation of other institutions such as the Federal National Mortgage Association.

- A home buyer education program for applicants and existing borrowers should be developed.

- Authority should be provided to use the guaranteed loan program to encourage the graduation of direct borrowers to commercial credit.

■ *Improving Water Quality for Rural Americans*

Issue

More than 1 million Americans live in rural areas without safe drinking water in their homes.

Discussion

USDA's Water 2000 initiative aims to target public and private investment in safe, affordable drinking water to unserved households in order to improve the health, productivity, and economic opportunities of rural communities and control the long-term public costs related to drinking unsafe water. This effort is a partnership between USDA, State agencies, non-profit organizations and citizen groups.

Guidance

- Change eligibility requirements for loans and grants. Present requirements for the lowest interest rate are restricted to health or sanitary standard eligibility. The requirements should be expanded to include income levels.

- Increase funding for grants to construct water facilities: An increase in the authorized grant funding level would enable poor communities to build water facilities and implement pollution prevention efforts such as well head and source protection at an affordable cost to rural families. Consideration should also be given to authorizing 100 percent grant assistance for very-low income communities experiencing financial hardship, provided that these communities can demonstrate their ability to operate and maintain the system.

- Expand the technical assistance and training grant program to provide funds to help rural communities and organizations identify and evaluate economically viable long-term, regional solutions to providing safe, affordable drinking water to unserved families and those who may be served better by regional supply systems.

- Eliminate duplicate National Environmental Protection Act (NEPA) environmental reviews. Legislation is needed to authorize Rural Utility Service to accept State NEPA procedures to satisfy Federal NEPA and related laws.

■Developing Business Activity

Issue

Employment is the key to economic prosperity. Unfortunately, many rural areas have a very limited economic base and, when there are declines in that base such as have occurred in the mining, forestry, and some manufacturing industries, unemployment and outmigration accelerates. Economic shocks often have a much more pronounced impact on rural communities because of their undiversified economies and the limited financial and technical resources they have for coping with unexpected change.

Most rural communities need to find ways to diversify their economic base for more financial stability and growth. New approaches, including promotion of value-added industries, are needed to nurture business development in rural areas.

Discussion

The characteristics of rural areas--remoteness, low population density, lack of complete infrastructure--makes business development in rural areas difficult. The low income and lack of employment skills also keep new businesses from starting in rural areas.

The lack of economic diversity in many rural areas limits economic opportunity for rural residents and makes communities vulnerable to economic shocks affecting individual industries. For example, there are 556 farming dependent counties that are generally remote, predominantly rural, and sparsely populated. These counties have been losing population through outmigration. Shrinking populations jeopardize the viability of existing businesses, discourage new investment, and strain local governments' ability to provide vital public services. Another 146 counties may be classified as mining-dependent and vulnerable to declines in oil, gas, and coal markets. The narrow economic base in many rural places limits employment opportunities.

Some steps have been taken to foster business development. The Administration has proposed increased funding for the business and industry loan guarantee program, from $250 million available in 1994 to $750 million for 1996. Furthermore, the Empowerment Zone and Enterprise Community initiative provides substantial incentives for job creation in designated areas.

Production of value-added agricultural commodities is a potential rural development tool that can also support farm incomes. Efforts to locate value-added processing in rural areas where raw agricultural commodities are produced can provide needed rural employment opportunities, first in the start-up phase when there is investment in new plant construction and later once processing goes on line. Unlike manufacturing industries which must compete globally against low-wage suppliers, value-added industries that build on the advantage of locally supplied agricultural inputs may be a more sustainable rural development strategy. Furthermore, value-added and high-value products are the fastest growing segment of U.S. export trade.

The location of value-added processing today is largely the result of historical relationships involving technology and economic factors including economies of scale, labor supply conditions, and transportation costs, and the structure of demand. However, these relationships have changed over time and may now provide opportunities for rural development through value-added processing.

Research into new uses can contribute to the rural development process. While traditional value-added processing must compete with established processing capacity, value-added processing for new uses can establish a niche right from the start. This requires an on-going program to develop new uses and new crops suitable for rural processing. Ethanol is an excellent example of successful large-scale value-added processing which has provided rural jobs. Milkweed production for floss used in comforters is an example of small-scale value-added processing.

Guidance

New efforts are needed to extend business development activities in rural areas. These could include:

- Provide funding for agricultural extension offices and other organizations that would undertake activities known to support business formation and expansion. Funding would support delivery of technical assistance to businesses, development of business incubators, and establishment of manufacturing networks. Funding would be on a competitive basis.

- Maintain an on-going research program to develop new uses for agricultural commodities that have potential for value-added processing in rural communities.

- Support collaborative economic and technical research involving federal, state, and private parties to identify viable products for local processing.

- Support human capital investment in the skills needed in value-added processing and to provide supporting infrastructure improvements.

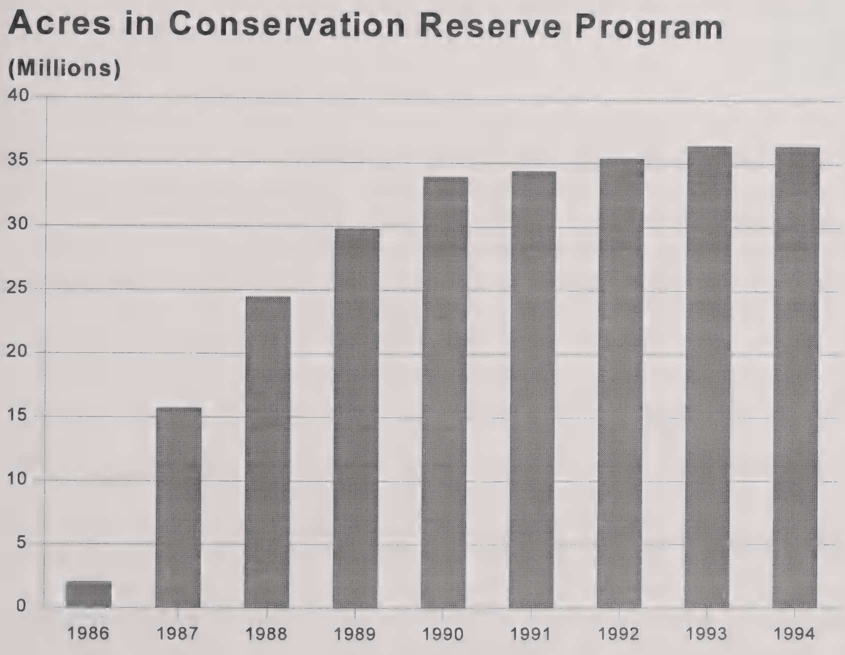
- Support providing financial and technical assistance for rural businesses that develop and serve export markets for processed agricultural products. This can be achieved by earmarking a portion of the funding or establishing statutory priorities under existing programs. For example, the President's FY 1996 Budget includes $50 million in direct loans in addition to $750 million in loan guarantees under the Business and Industry Loan Program and $90 million in direct loans under the Intermediary Relending Program. A portion of this funding could be targeted to export linked businesses. Technical assistance could be provided through existing grant programs, such as Rural Business Enterprise Grants.

Section 3
Conservation and Environment

Agriculture means more than food and fiber. Agriculture also plays an important role in defining the environmental health of our Nation.

Tremendous progress has been made in this area in the last 10 years. The programs created in the 1985 and 1990 Farm Bills generated some of the most successful conservation programs in agriculture's history, although these same programs have not been without controversy. Therefore, to continue the conservation successes to date, the 1995 Farm Bill must include a focus on preserving the tremendous natural resource gains that have been made over this last decade while ensuring that the programs work for farmers, ranchers and the landowning community in general.

A key to the success of our conservation efforts has been the availability of diverse conservation programs. Land retirement programs such as the Conservation Reserve



Program (CRP) and the Wetlands Reserve Program (WRP) have removed millions of acres of highly erodible and environmentally sensitive lands from production. Cost-sharing programs such as the Agricultural Conservation Program help farmers pay for conservation improvements. Technical assistance gives conservation advice and assistance to farmers and ranchers. And programs like Swampbuster, Sodbuster, and conservation compliance have provided added incentive for farm program participants to commit to long-term conservation goals.

The 1995 Farm Bill provides an opportunity to simplify existing conservation programs, improve their flexibility and efficiency, and better target specific programs in the conservation "tool kit" to address high-priority natural resource and environmental protection goals. Through continuing a voluntary approach to conservation and capitalizing on the partnership among USDA conservation agencies, other State and Federal agencies, the conservation districts, and agricultural producers, even greater conservation gains can be made which complement the profitability of farming and ranching.

There are many success stories. The CRP, which provides annual rental payments to farmers who retire environmentally sensitive cropland from crop production, has been tremendously beneficial for both producers and the general public. The CRP is a 36.4 million acres program that has reduced soil erosion by 22 percent and provides significant water quality and wildlife habitat benefits. In the Great Plains, the CRP is known as the wildlife habitat program where populations of certain wildlife species are recovering dramatically. Other benefits include enhanced wetlands and hundred of thousands of acres planted to trees. CRP contracts will begin to expire in October, 1995.

The other major erosion control program from the 1985 Farm Bill is the highly erodible land conservation program, or conservation compliance. Under this program, producers were required to have an approved erosion control plan by the end of 1994 to remain eligible for farm program benefits. Approximately 100 million acres of highly erodible land in row crop production today are receiving various conservation treatments because of these provisions. Erosion on these lands is estimated to be reduced by approximately two-thirds, saving approximately 1 billion tons of soil a year. Despite controversy during the initial years of its implementation, the agricultural community supports conservation compliance. The Farm Bill must building on these successes.

The Swampbuster program was also created in 1985 and like conservation compliance, farmers lose their eligibility for farm program benefits if they convert a wetland for agricultural purposes. While the natural resource successes of this program have been considerable, lack of program flexibility has resulted, at times, in decisions at the local level that have been controversial. The success of agriculture's efforts to protect wetlands should serve as a foundation for the future. The rate of wetlands converted for agricultural purposes is down approximately 80 percent since the late 1970s and

early 1980s, to approximately 31,000 acres a year. But the swampbuster program should be made more flexible, more fair to the farmer, and less complex if progress in protecting agricultural wetlands is to be truly successful.

Conservation programs based on compliance-like mechanisms are only effective if the environment problems in question are found on farms participating in the farm programs. Reductions in the level of benefits provided under the farm programs generally reduces farm program participation, which would be expected to diminish the natural resource benefits of programs such as conservation compliance and Swampbuster.

Another conservation success story is the WRP created in the 1990 Farm Bill. When restoration is complete on all of the land in or entering the program, agriculture will be at or above the goal of no net loss of wetlands. The WRP directs the Secretary to restore 975,000 acres by the end of the calendar year 2000 and protect these wetlands with long-term or permanent easements. A related effort is the Emergency Wetlands Reserve Program (EWRP), a result of the 1993 Midwest flood recovery effort. This program targets damaged Midwest cropland that was protected by levees. As of June 1, 1994, about 25,000 acres had been enrolled.

The 1990 Farm Bill introduced the concept of flexible base acreage that permits farmers to plant up to 25 percent of base acreage with alternative crops while protecting their historical base acreage. Planting restrictions limit rotation opportunities, especially for farmers whose crop acreage base approaches the total acres on the farm. With flexibility on 15 percent (one-seventh) of the base, it takes 7 years to rotate an entire crop base to another crop if the producer does not want to forego any deficiency payments.

Other programs implemented in 1990, such as the Integrated Farm Management Program Option, and the Agricultural Water Quality Protection Program (AWQPP), implemented under the Agricultural Conservation Program, are helping farmers find ways to use more beneficial rotations and to meet water quality goals. However, funding for the AWQPP has been limited and total acreage enrolled is under a million acres.

■ *Conservation Reserve Program*

Issue

Authority for enrolling acres in the Conservation Reserve Program (CRP) expires in 1995. This highly beneficial program needs to be reauthorized with appropriate natural resource management objectives.

Discussion

The CRP was authorized in the 1985 Farm Bill and amended by the 1990 Farm Bill. The CRP encourages farmers, through-10 to 15-year contracts with USDA, to retire highly erodible and other environmentally fragile cropland from production to control soil erosion, improve water quality, and enhance wildlife habitat. The retired acres must be planted with a soil conserving cover of grass or trees. To date, 36.4 million acres have been enrolled in the CRP. Results of a 1993 survey indicate that if the program were not extended CRP participants would return 60 percent or more of their CRP acres to crop production once contracts expired depending on commodity prices. Contracts on about 24 million acres are due to expire in the 1995-1997 period.

Producers with contracts on approximately 2 million acres that expire September 30, 1995, will have the option to modify those contracts and extend the expiration date for one year. After contracts expire, annual rental payments made by USDA to CRP participants will end, and producers must decide on the next use of their land. If commodity market conditions are favorable, a significant portion of CRP land could be returned to intensive crop production. The conservation compliance provision will partially protect the soil from erosion on most CRP land if that land is returned to crop production. But other CRP benefits, such as water quality improvement and wildlife habitat enhancement, will be reduced or eliminated.

On December 14, 1994, USDA announced its plans to allow producers to modify and extend CRP contracts as they expire. The Department announced that it will allow existing contract holders to terminate their contracts or to reduce the acreage subject to a contract. In addition, subject to availability of funds, the Department will enroll new acres to bring CRP enrolled acres up to the legislatively mandated level of 38 million acres. These new enrollments have to meet higher environmental and conservation criteria established through 1995. Producers could modify existing contracts to shift to more environmentally sensitive acres on the same farm.

While estimates of the dollar value of CRP benefits vary considerably, studies suggest the CRP has provided public benefits worth about $13.4 billion discounted over the life of the program. The distribution of those benefits is: fish and wildlife, $8.6 billion; water quality, $3.1 billion; soil productivity, $1.3 billion; and wind erosion, $0.4 billion.

Guidance

The Administration recommends a more effective CRP by refining the program in the following ways:

- Reauthorize the CRP and allow USDA to proceed generally along the lines announced in December 1994. Reauthorization would permit additional program enrollments through the year 2000. In 1995, USDA would establish new environmental enrollment criteria through public rulemaking and enroll new acres to replace acres leaving the program through early termination of contracts.

- For 1996 and beyond, permit all CRP participants to extend maturing contracts. Participants wanting to extend their contracts would be offered rental rates that reflect the prevailing local market rates for comparable land adjusted for environmental and conservation benefits, based on the established criteria. There would be new enrollment on a nationally competitive basis up to a level consistent with the CRP budget baseline. The extended contracts plus new enrollments would result in the CRP containing the most environmentally sensitive lands with regard to erosion, wildlife, water quality and other high-priority values. Participants would have the opportunity to place long-term easements on high-priority acres.

- Encourage state and local interests, through the Consolidated Farm Service Agency, the Natural Resources Conservation Service and state technical committees, to help establish land enrollment priorities and offer matching funds to realize those priorities.

- Permit, under certain circumstances, economic use of CRP acres, such as for the production of biomass, in exchange for a reduced rental rate. Also permit the option for longer-term contracts.

■ *Wetlands Reserve Program*

Issue

The Wetlands Reserve Program (WRP), established in 1990, is one of the most innovative agricultural programs established this decade. Enormously popular, a successful WRP will ensure that agriculture as a sector is able to achieve the goal of no net loss of wetlands to agriculture. Greater program flexibility would help WRP achieve that goal.

Discussion

The WRP authorizes the Secretary to restore not less than 975,000 acres to wetland status by the year 2000, through permanent or long-term easements. Certain changes can be made to make the program easier and less costly to administer while maintaining high program quality.

Guidance

To take advantage of these opportunities, the program could be amended as follows:

- Modify the WRP provisions to give the Secretary flexibility in timing compensation payments to achieve maximum program efficiency.

- Give the Secretary the authority to work with other agencies to ensure the most efficient management of the Department's responsibilities for the easements acquired under the program.

- Broaden the types of land eligible for the WRP to include critical environmentally sensitive acres associated with wetlands and riparian zones that the Secretary determines suitable for protection with long-term or permanent easements.

- Encourage state and local interests, through the Natural Resources Conservation Service and state technical committees, to help establish wetland enrollment priorities and offer matching funds.

■ *Highly Erodible Land Conservation*

Issue

The highly erodible land conservation provisions (Conservation Compliance/Sodbuster) of the 1985 Farm Bill as amended by the 1990 Farm Bill have an excellent record in reducing soil erosion. However, the provisions can be revised to increase flexibility in administration while providing greater soil resource sustainability.

Discussion

The 1985 provisions stipulate that farmers, to retain eligibility for certain USDA benefits, must have had an approved conservation system in place on all highly erodible cropland used to produce agriculture commodities by December 31, 1994. With Natural Resources Conservation Service (NRCS) assistance, more than 1 million conservation compliance plans were developed by producers for approximately 100 million acres of highly erodible cropland in row crop production. Ninety-five percent of those plans were implemented by the legislated deadline. Preliminary data indicate that approximately 48 percent of farmers with highly erodible cropland have applied compliance systems that achieve soil sustainability, compared to 13 percent prior to implementation of the conservation compliance policy. The erosion rates on these lands are expected to decline 64 percent, from 16.2 tons per acre per year to 5.8 tons per acre per year.

The 1990 Farm Bill amended these provisions so that a person's benefits may be reduced for conservation compliance violations by an amount not less than $500 nor more than $5,000 if the person: 1) acted in good faith without the intent to violate the highly erodible land conservation provision; and 2) has not been found in violation in the previous 5-year period.

The conservation compliance provision has been implemented over the past decade with the application of alternative conservation systems nationwide. Alternative conservation systems were defined as conservation systems that achieved substantial reductions in erosion and that were both economically and technically feasible. It was not necessary for those systems to achieve optimal soil sustainability in terms of erosion reduction. Presently, about 17.5 percent of the alternative conservation systems planned allow soil erosion levels in excess of twice the sustainable level.

Internal program audits, in addition to those conducted by the Office of the Inspector General, indicate two major concerns with alternative conservation systems. First, some of the systems seem to allow excessive rates of erosion. Secondly, there are specific cases indicating significant inconsistencies in the regional level of erosion control from state to state.

Conservation compliance is generally supported by both agricultural interests and the general public, despite the initial concerns and controversy that marked its

implementation. But the program is not without remaining important problems, as apparent from numerous public surveys, forums, and a decade of experience. Changes are needed to increase the policy's effectiveness in achieving soil resource sustainability.

Guidance

- To improve the effectiveness of the conservation compliance provision particularly with respect to increased flexibility in achieving soil resource sustainability, the authorizing legislation should modify the good faith exemption and Graduated Payments Reduction (GPR) provisions to ensure that a good faith exemption is applied when a good faith violation occurs and that the GPR is commensurate with the severity of the violation.

- In concert with this legislative change, USDA is considering the following administrative changes:

  - NRCS would work with appropriate State and local entities, the agricultural industry, and researchers to determine areas where improved alternative conservation plans are needed and to remove inconsistencies in their application. NRCS would work with agricultural and other interests where alternative conservation plans are presently needed to establish long-term goals for helping farmers using these plans to achieve soil resource sustainability.

  - Provide appropriate flexibility for working with those farming newly purchased or newly rented land as they develop and fully implement a conservation compliance plan. Make changes that will make the status review process more efficient and less costly to administer.

■ *Swampbuster*

Issue

The Swampbuster provision of the 1985 Farm Bill as amended by the 1990 Farm Bill, has successfully reduced the loss of wetlands to agricultural production to levels not seen since the turn of the century. However, this provision is controversial. Much of the controversy is caused by the rigidity of the law itself, which prevents USDA's Natural Resources Conservation Service (NCRS) field personnel from working with landowners on wetland issues on their private property in a flexible and common-sense manner. Swampbuster is one of the primary federal wetlands programs, and therefore it is critical to minimize, where appropriate, the differences between Swampbuster and these other programs, primarily Section 404 of the Clean Water Act. These efforts need not reduce the level of protection of wetlands functions and values as exist today.

Discussion

The 1985 Farm Bill, as amended, provides limited discretion for NRCS field personnel to work out solutions to wetland problems with private landowners. This rigidity has caused frustration within the farming community and among NRCS employees. Common-sense solutions are prohibited in many cases because of current statutory language. For example, the statute only allows for the conversion of frequently cropped wetlands to be mitigated, and that mitigation must occur on prior-converted cropland even though other alternatives exist that may enhance the functions and values of wetlands in the surrounding area.

There are significant differences between the mitigation authorities allowed under Swampbuster and those for Section 404. Some landowners find themselves in violation of Swampbuster even though they received a Section 404 permit and met all of its mitigation requirements. Some farm program participants find themselves needing a Section 404 permit even though the Swampbuster statute allows frequently cropped wetlands to be converted if their conversion is mitigated.

In general, inconsistencies between program requirements and the duplication of effort cause considerable confusion and frustration among landowners trying to work within the system.

The January 1994 Interagency Memorandum of Agreement (MOA) concerning the delineation of wetlands is an important first step in addressing these concerns. NRCS is responsible for making wetland delineations on agricultural land and the agreement allows NRCS to make wetland determinations on "non-agricultural" land with the concurrence of the U.S. Army Corps of Engineers. The MOA incorporates closer coordination between Swampbuster and Section 404 of the Clean Water Act in an effort to streamline program implementation.

Guidance

- Pursue amendments to the wetland conservation provisions of the 1985 Farm Bill to ensure that the program focuses on conserving significant and important wetland functions and values, while providing greater flexibility to the agency as it works with farmers, particularly with regard to the mitigation provisions.

- Change the mitigation provisions so that the agency and the farmer can focus on restoring significant functions and values on a watershed basis, using sound science and common-sense judgement on the location and timing of the mitigation activities. Provide for the creation and use of wetland mitigation banks.

- Modify the good faith exemption and GPR provisions to ensure that a good faith exemption is applied when a good faith violation occurs and that the GPR is commensurate with the severity of the violation.

- Provide the Secretary flexibility to develop watershed approaches that maximize wetland functions and values and reduce burdens on landowners consistent with the purposes of the program and other applicable environmental laws.

■Coordinated Conservation Assistance

Issue

Conservation programs can be made more effective by a coordinated conservation assistance initiative that provides for: 1) a simplified set of conservation technical and financial assistance tools; 2) state and locally developed and led conservation efforts, including use of the watershed or areawide approach, and supported by better national and regional guidance and planning; and 3) site-specific conservation plans for farms or ranches that serve the comprehensive needs of these operations.

Discussion

Considerable improvements are possible in USDA's conservation programs that would give local people more control over these programs and at the same time make the programs more accountable to the taxpayer. Many of these improvements would be based on doing a better job of helping communities see how all of their natural resources are interrelated at the watershed or some other geographical level and assisting them as they decide what local action is needed. Every effort must be made to simplify for farmers and ranchers our conservation programs on private lands. USDA can help by simplifying its own programs, and working with federal and state agencies to achieve, as much as possible, one-stop shopping for conservation assistance and requirements. Of course, these programs must always be consistent with sound agronomic and economic principles.

Guidance

Improving performance of conservation programs involves the following initiatives:

- Coordinated conservation assistance would begin with national and regional guidance and standards that reflect national priorities and developed through an open and inclusive process. Priorities could include issues like erosion control, water quality and quantity, wildlife habitat, farmland protection, and grazing land conservation. These would be used by USDA agencies to guide and support the conservation efforts at the state, local and field level.

- A "base program" would provide conservation assistance to farmers, ranchers, and others on private lands, to establish technical standards for conservation systems, and provide soil survey and other resource inventory data. This base program would not have to operate on the basis of a watershed or geographical area plan.

- An open and inclusive process would be used at the state level to identify priority areas and issues, consistent with the national guidelines, that can be addressed on a watershed or some other geographical basis. Assistance would be provided through the state offices to assist local groups in these priority areas (i.e. watersheds) who want to develop solutions to their issues. Consistent with

the national guidelines and standards, the problems in the watersheds would be identified by these local groups, as would the solutions that should be pursued. Funds would support these activities.

Ultimately, the goal would be site-specific plans developed in full cooperation with the producer that work for the farms and ranches in a particular area. Where appropriate these would be whole-farm or ranch plans. The plans would not have to be developed by USDA staff, but USDA would need to establish a quality assurance process to ensure the technical adequacy of all plans.

USDA would advocate that these plans be used to meet the requirements of other federal or state natural resource statutes or programs (e.g., Endangered Species Act) with agreement of the relevant federal and state agencies.

- Simplified cost-share tools would be established through either consolidation of existing cost-share programs into one program, or through consolidation of conservation authorities to ensure that the best elements of each of the existing authorities are preserved and available for use in all programs.

- A conservation investment initiative would provide cost-sharing and loans to help farmers, ranchers, non-industrial private foresters, and other land users implement conservation practices.

- Authority for conservation challenge grants would match Federal funds with local and state funds to achieve priority conservation goals in priority areas.

■Resource Conservation and Development Program

Issue

The Resource Conservation and Development (RC&D) program expires on December 31, 1995. The program has had an important role in coordinating Federal and non-Federal funds to promote the dual goals of rural economic development and resource conservation.

Discussion

The objective of the RC&D program is to help state and local governments work with local interest groups and individual citizens to plan, develop, and carry out programs for land conservation, water management, community development, and environmental enhancement.

Today there are 277 active RC&D areas, averaging 7 counties per area, and covering nearly 1.2 billion acres--about half the land in the United States and 55 percent of the Nation's counties. An average of 40-50 other areas are awaiting authorization for RC&D participation at any one time.

Volunteers from local RC&D councils identify the problems in each area, set priorities, and establish goals to achieve those priorities. Councils coordinate their activities with state, area, and local agencies. Most councils are nonprofit corporations with the authority to seek help from qualified sources. This help may be technical assistance from USDA agencies, state or local governments, local conservation districts, or private industry. It also may be financial assistance such as donations, loans, grants, or cost-sharing arrangements. The Natural Resources Conservation Service (NRCS) administers the program for USDA. NRCS provides a coordinator and other support in each RC&D area.

Approximately 26,000 projects have been completed since the program's inception, of which about 3,000 were accomplished with some program financial assistance. These projects were related to natural resources, community development, and economic development. Councils in recent years have tried efforts to keep businesses in rural communities, increase the net income of rural residents, and establish needed community services.

Since the RC&D program began, councils have raised $6.1 billion in Federal and non-Federal money to support the projects. This is an annual contribution of about $230 million from other sources and $4 million from RC&D funds. Voluntary contributions from the 6,000 council members and more than 9,000 committee members in time, cash, materials, and grants are estimated to exceed $30 million annually.

The RC&D program supports the National Rural Development Partnership and its State Rural Development Councils, providing technical assistance for better use of local resources in economic development and improving the quality of life in rural America. For example, the program is helping the Pacific Northwest overcome the effects of timber industry slowdown in spotted owl territory and water quality concerns in salmon recovery areas.

Guidance

- Extend the RC&D program to allow local interests to continue using this popular program to address effectively a host of natural resource conservation and community objectives.

■National Natural Resources Conservation Foundation

Issue

The mission of the Natural Resources Conservation Service (NRCS) is to help private landowners and communities effectively address natural resource management issues. Using the best science available, agency technicians help landowners and land managers identify solutions to conservation problems. Creation of a National Natural Resources Conservation Foundation could assist the agency in accomplishing its mission and developing innovative, long-term solutions to natural resource issues.

Discussion

A number of congressionally chartered foundations associated with federal agencies have been created, including the National Fish and Wildlife Foundation, the National Park Foundation, and the National Forest Foundation.

A National Natural Resources Conservation Foundation could assist the agency in finding solutions to conservation problems through effective partnerships between government and the private sector. The foundation would be a congressionally chartered, private, nonprofit charitable organization, governed by a nine-member board of directors. Board members would represent broad interests with a stake in the conservation of natural resources on private land, including agricultural land.

The foundation would be independent of NRCS, but would work closely with the agency. To ensure that foundation activities remain consistent with the mission of NRCS, the Secretary of Agriculture would appoint members of the foundation board and the Chief of NRCS would serve as a member. To maintain the integrity of the agency, the Secretary would establish written guidelines on working with the foundation.

A private foundation one step removed from NRCS governance would enable the agency to accomplish several things. First, the foundation would help promote innovative solutions to conservation problems. Second, it would foster partnerships between the agency and diverse constituencies that have interests in natural resource management issues but have not been well represented in NRCS deliberations in the past. Third, it would encourage private funding for conservation initiatives.

The foundation would not compete with existing institutions, but would help them work cooperatively on new ways of dealing with natural resource management issues.

Seed money from a federal matching grant would challenge the foundation to raise funds in the private sector.

Guidance

Authorize creation of a National Natural Resources Conservation Foundation. The foundation could:

- Explore ways to instill a conservation ethic in landowners and land managers that would reduce the need for regulatory programs.
- Familiarize landowners and land mangers with innovative conservation techniques and solutions.
- Facilitate communication among the newly established NRCS technical institutes, centers of technical expertise, colleagues elsewhere in the public and private sectors, and agency clients.
- Develop the capacity of conservation districts and other local institutions to administer conservation programs and thus reduce the federal burden and make programs more sensitive to local needs.
- Sponsor demonstrations of effective conservation practices.
- Identify opportunities for coordinating NRCS-administered conservation programs with similar state initiatives, such as the Reinvest in Minnesota Program.

Grazing Lands Conservation Initiative

Issue

Private grazing lands provide enormous benefits to this country. Like cropland, grazing lands serve as the foundation for economic activity throughout rural America. Grazing lands provide benefits such as erosion control, water and air quality, and is a tremendous wildlife habitat. Private grazing lands have received limited attention from Federal conservation programs over the last 10 years. A Grazing Lands Conservation Initiative (GLCI) could focus and revitalize USDA's ability to support the conservation efforts of private landowners and users of this valuable natural resource.

Discussion

Private grazing lands encompass 642 million acres, nearly half of the non-Federal land area of the United States. Private grazing lands include privately owned, State owned, tribal, and other non-Federal rangelands, pasturelands, hay lands, and grazed forests. The Nation's private grazing lands are important sources of food and fiber; they use the most watershed land; they are critically important to the quantity and quality of our water supply; they provide habitat for much wildlife; and they provide numerous recreational opportunities. These lands are in every state, and in some states are the dominant land type. Production from these lands provides the economic foundation for many rural communities.

The latest National Resources Inventory shows that about 64 percent of the Nation's grazing land would benefit from conservation treatments, such as improved grazing management to better protect soil and water resources and weed and brush management to restore a more productive and healthy plant community. Requests from private grazing land owners are increasing for NRCS technical assistance in planning and implementing conservation treatments to meet environmental regulations, and to diversify enterprises and income sources.

The GLCI has been developed by a coalition of private landowners, producers, conservation and environmental organizations, and scientific societies to:

- Promote voluntary, landowner supported efforts to protect and improve America's private grazing lands,
- Strengthen land stewardship partnerships between grazing land managers and other groups;
- Encourage enterprise diversification for achieve multiple resource benefits and rural economic development, and
- Encourage technical assistance, education, research, and public awareness.

Guidance

- Integrate into the Department's Coordinated Conservation Assistance effort a GLCI--a coordinated technical, educational, and related assistance program to help private land owners voluntarily enhance their private grazing land resources, thereby providing multiple benefits to all citizens of the United States.

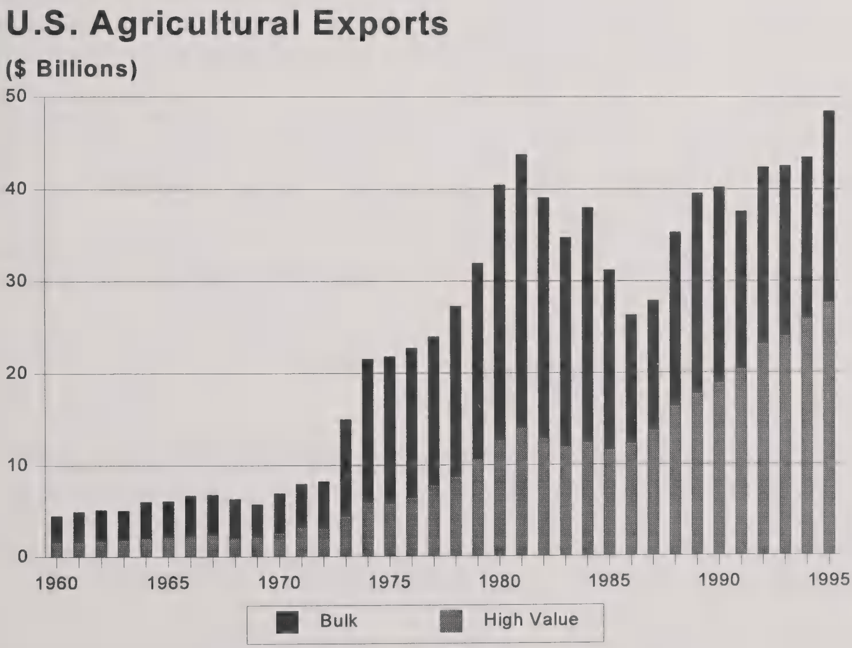
Section 4

International Programs

The performance of the U.S. agricultural economy is highly dependent on international markets. Consequently, U.S. foreign, trade, and economic policies are as important as farm programs in creating a healthy farm economy because of their effects on exports. Export success is essential to the prosperity of U.S. agricultural producers because growth in domestic demand will be inadequate to absorb the growing productivity of U.S. agriculture. Ninety-six percent of the world's population lives outside the United States. The fastest growing economies and markets for U.S. agricultural exports are the countries in Asia and Latin America.

Currently, more than $48 billion worth of agricultural products are exported annually, accounting for one-fifth of farm production. High-value and value-added products have been fastest growing among export commodities. In addition to supporting farm prices and farm income, agricultural exports increase employment and they help to offset the negative trade balance in other sectors of the economy.

The historic North American Free Trade Agreement (NAFTA) and the Uruguay Round



(UR) of the General Agreement on Tariffs and Trade (GATT) trade agreement will continue to expand U.S. agricultural export opportunities. Because the UR agreement does not eliminate export subsidy competition or eliminate all restrictions on market access, U.S. producers will continue to face some, although more limited, subsidized competition and some high tariff levels that may limit their export opportunities. Moreover, regional trading blocs such as NAFTA are proliferating. While agreements such as NAFTA are net gains for U.S. agricultural producers, other agreements to which the United States is not a contracting party, such as the expected continued enlargement of the European Union, could put U.S. agricultural exports at a disadvantage.

USDA's involvement in agricultural trade includes five primary program categories: export subsidies, market development, export credit guarantees, food aid, and technical cooperation programs. In addition, USDA's Animal and Plant Health Inspection Service (APHIS) protects U.S. agriculture from imported pests and diseases and ensures that plant and animal products exported from the United States meet pest and disease requirements of importing countries.

The export subsidy programs include the Export Enhancement Program (EEP), Dairy Export Incentive Program (DEIP), Sunflowerseed Oil Assistance Program (SOAP), and the Cottonseed Oil Assistance Program (COAP). EEP is the largest of these programs, accounting for 89 percent of the $1.29 billion of export price subsidies in FY 1994. More than 84 percent of EEP subsidy awards in FY 1994 were for wheat and wheat flour exports. Export subsidy programs increase exports by enabling U.S. agricultural commodities to be sold at competitive prices in foreign markets. These programs have been used to counter export subsidies and unfair trading practices by competitors.

Market development programs include the Foreign Market Development Program (FMD) and the Market Promotion Program (MPP). The FMD program was established in 1955. Its goals are to develop, maintain, and expand long-term foreign markets for U.S. agricultural exports. FMD expenditures in FY 1994 were $38.6 million. The MPP replaced the Targeted Export Assistance (TEA), program which was established by the 1985 Act. The prime goal of MPP is export promotion and market development. The program level for MPP in FY 1995 is $86 million--down from $100 million in FY 1994. Both programs engage in export promotion activities such as trade servicing (e.g. newsletters, public relations, and trade missions), technical assistance, and consumer promotions.

Export credit guarantee programs include GSM-102 and GSM-103 which provide USDA guarantees of repayment of private credit extended for the purchase of U.S. commodities. These credit guarantees increase the availability of private sector credit in some cases at lower interest rates than would otherwise be possible, because the Commodity Credit Corporation (CCC) assumes most of the risk of nonpayment.

The main U.S. food aid programs are the P.L. 480 program, the Food for Progress program, and Section 416(b) of the Agricultural Act of 1949.

■Export Enhancement Program

Issue
USDA operates the Export Enhancement Program (EEP), a direct subsidy program, to encourage the export of a variety of commodities, including wheat and wheat flour, barley and barley malt, rice, poultry, eggs, and vegetable oils. Under the program, cash bonus payments are made available to exporters of U.S. commodities to enable them to price such commodities competitively and, thereby, make sales in targeted overseas markets. The EEP could be made more cost effective in its operations and more responsive to changing market conditions.

Discussion
Under the Uruguay Round (UR) agreement, the United States must reduce export subsidies by 21 percent in volume and 36 percent in value from the 1986-90 base period. Wheat and wheat flour receive the largest share of EEP subsidy awards--more than $968 million in FY 1994 which accounted for 84 percent of total EEP awards. By FY 2001, export subsidies for wheat and wheat flour will be limited to $364 million. The Administration committed to Congress during consideration of the UR implementing legislation to use export subsidies to "the fullest extent permissible under GATT." In addition, the Congress authorized the use of EEP to encourage the commercial sale of US agricultural commodities in world markets at competitive proces, not just to discourage unfair trade practices.

In view of declining resources and a broadened authority for EEP, the Administration will explore options to increase flexibility in operations and procedures in order to make the program more responsive to world market conditions. Such changes would also increase the program's efficiency and effectiveness.

Guidance
Consistent with UR value and volume reduction commitments, USDA will pursue changes in procedures by which bonuses are awarded to exporters. USDA will seek to:

- Increase the cost-effectiveness of export subsidy programs by encouraging the lowest possible subsidies to achieve the maximum level of subsidized volume;
- Increase the flexibility of exporters to respond to changing market conditions;
- Reduce administrative complexity and cost;
- Provide safeguards against fraud and exports of non-U.S. products; and
- Be consistent with U.S. trade policy goals.

This spring, the Trade Policy Review Group will develop proposals for comment that include a quarterly auction of subsidized export volume commitments, by region and commodity, or an equivalent system. Under a competitive tender system, exporters would include in their bids a dollar amount of export subsidy and the quantity of commodity to be exported. USDA would allocate the subsidies to the lowest bidders. USDA could award these export subsidy rights in the form of tradeable certificates.

If USDA accepted its offer, an exporter would be required to export the agreed-upon quantity during a specified period of time. Exporters would be free to allocate the subsidies across individual sales in any way they wished. The program would be managed in a manner that ensures GATT compliance.

■*Export Credit Guarantees*

Issue

Commodity Credit Corporation (CCC) export credit guarantees promote the export of U.S. agricultural commodities and products by facilitating the extension of commercial export credit to importers in developing and middle-income countries who would not otherwise be able to purchase commercially. Export credit guarantees could do more to increase agricultural exports by targeting higher credit risk emerging markets and encouraging exports of high-value products.

Discussion

CCC export credit guarantees include short-term (GSM-102 up to 3 years) and longer-term (GSM-103 up to 10 years) guarantees. Provisions of the Agricultural Trade Act of 1978, as amended by the 1990 Act, prohibit CCC from making export credit guarantees available for sales to any country the Secretary of Agriculture determines cannot adequately service the subsequent debt. For some countries, economic and political reforms result in potentially high market growth, but the countries may still present a somewhat higher credit risk. Greater flexibility in the evaluation of creditworthiness could increase exports to these emerging markets.

The GSM-103 export credit guarantee program could be made more effective for market promotion by assisting in the provision of credit for potential high-growth and higher-risk emerging markets. Greater programming flexibility to target export credit guarantees to such emerging markets could also be achieved by authority to consider the longer-term economic growth and development potential of a country when making credit allocations. Primary indications of future growth and development are economic policy reforms that promote market-oriented and long-term economic development that are carried out in conjunction with international financial institutions such as the International Monetary Fund and World Bank.

The export credit guarantee programs could also be more effective in promoting sales of U.S. high-value and value-added products if products with limited non-U.S. content could be covered under the programs. At present in nearly all instances, only 100 percent U.S.-content products can be covered under the programs. Since 1986, U.S. exports of high value products have doubled, reaching a record $25.9 billion in fiscal year 1994 and accounting for 60 percent of total agricultural exports. Because only products with 100 percent U.S. content are eligible in nearly all instances for export credit guarantees, many high-value products that have even minimal non-U.S. components, such as imported sugar and spices, are ordinarily not eligible.

Guidance

To increase the export promotion and market development effectiveness of CCC export credit guarantees the following changes should be implemented:

- Current statutory guidelines for making available GSM-103 export credit guarantees would be broadened to target emerging, but somewhat higher credit risk markets. Eligibility for the guarantees would be based on economic policy reforms carried out in conjunction with international financial institutions. Any increased export credit subsidy costs associated with targeting emerging markets could be offset by a reduction in the overall level of export credit guarantees.

- Domestic content requirement for GSM programs would be reduced, allowing a broader range of products to be exported. Limiting CCC guarantee coverage to the U.S. content only could be considered. This proposal would increase the potential for export of U.S. high value and value-added products. In addition, it should encourage the production and processing of such products and the associated economic activity.

■Emerging Markets

Issue

USDA has several authorities under which it carries out agricultural technical assistance and cooperation activities. These are not closely linked to USDA's primary international mission of promoting trade and expanding markets for U.S. agricultural commodities and products. However, there is increasing recognition of the linkage between technical assistance activities, such as the development of marketing systems and infrastructure, and growth in imports. By refocusing these activities on emerging markets and by linking them to USDA's other export programs, they could make a much greater contribution to meeting export expansion goals.

Discussion

Provisions of the 1990 Farm Bill established a program for sharing U.S. agricultural technical expertise with emerging democracies (E [Kika] de la Garza Agricultural Fellowship Program). The Secretary of Agriculture is authorized to provide U.S. expertise to these countries to assess their food and rural business systems, to recommend measures needed to improve those systems, and to identify specific opportunities and projects for doing so. The authority, which is intended to establish, maintain, or expand U.S. agricultural exports, has been used extensively to provide technical assistance to the Newly Independent States (NIS) of the former Soviet Union and to countries in Eastern Europe and Central America. More recently, the program has been expanded to include several countries in sub-Saharan Africa, including South Africa.

While this "emerging democracies" program has provided useful assistance to these countries, the current authority is limited in certain important respects (e.g., requires a Presidential determination as to whether a country is an emerging democracy), including the countries and types of activities which can be targeted for assistance. Limiting the program to emerging democracies has proven particularly onerous due to a lack of precision and common understanding of its definition. Moreover, while the authority is intended to support the development, maintenance, and expansion of overseas markets for U.S. agricultural products, countries which offer the most promising market development prospects are not necessarily emerging democracies and thus not eligible for the program.

USDA also administers the Cochran Fellowship Program which provides agricultural training in the United States for foreign agricultural specialists, government officials, and business managers. The fellowships are intended to give recipients knowledge and skills to help participating countries develop agricultural systems and to strengthen trade linkages between the eligible countries and the United States. The program is limited to middle-income countries, emerging democracies, and the NIS. As for the emerging democracies, these countries may not necessarily be the most promising for export expansion purposes.

Both the emerging democracies program and Cochran Fellowship Program could be made more effective in developing overseas markets if their statutory authorities were changed to place greater emphasis on "emerging markets." Countries which qualify as emerging markets would be determined by the Secretary, consistent with the USDA's long-term market development and strategic planning efforts. More emphasis on emerging markets would also facilitate the use of these programs in conjunction with other trade promotion programs, such as CCC facilities financing guarantees and the P.L. 480 Title I program.

Guidance

Current statutory authorities for agricultural technical assistance and cooperation activities could make a greater contribution to the Department's trade promotion and market development objectives. This could be accomplished by revising these authorities to provide for the following:

- The "emerging democracies" program could be refocused on "emerging markets." These markets would be determined by the Secretary of Agriculture consistent with USDA's long-term market development and strategic planning efforts, in consultation with the Secretary of State.

- The types of technical assistance and cooperation activities authorized under the emerging markets program could be broadened so that program activities are tailored to the specific needs and characteristics of participating countries.

- The Cochran Fellowship Program could be more closely linked to USDA's trade promotion and market development efforts by including "emerging markets" among the countries eligible to participate. These countries might be the same as those designated by the Secretary of Agriculture for the emerging markets program.

- Activities carried out under both the emerging markets program and the Cochran Fellowship Program could be more closely linked to other USDA activities appropriate for these countries, such as P.L. 480 Title I credit sales and CCC facilities financing guarantees. This would increase their effectiveness as trade promotion and market development tools.

■P.L. 480 Foreign Food Assistance Programs

Issue

The majority of U.S. foreign food assistance is provided through the P.L. 480 programs that are administered by USDA and the Agency for International Development. The statutory authorities for these programs were rewritten in the 1990 Farm Bill; however, further changes could improve their effectiveness and enhance the United States' ability to assist countries meet their food import requirements and respond to international food emergencies. The Food Security Wheat Reserve was established in 1980 for use in P.L. 480 programming when U.S. domestic supplies of wheat are tight and in response to urgent humanitarian needs in developing countries. The Food Security Wheat Reserve could also be more effective if it were authorized to include a wider range of basic food commodities.

Discussion

Title I of P.L. 480 authorizes the sale of U.S. agricultural commodities to developing countries through long-term concessional financing, i.e. up to 30 years repayment with concessional interest rates. Provisions of the 1990 Farm Bill revised the Title I program to place greater emphasis on its export promotion and market development objectives, while retaining its other goals of assisting countries meet their food import requirements and enhance their food security. Additional changes in the Title I program, designed to increase its usefulness for developing long-term trading relationships with participating countries, could further increase its effectiveness as an export promotion and market development tool.

Consistent with these changes, each country-program would be subject to a review by the Secretary of Agriculture after five years to measure progress toward the market development objective. Potential changes include more flexible credit terms to match country financial situations better; a wider variety of commodities available for programming; modifications in statutory provisions to lessen confusion as to the goals of Title I (e.g. increased emphasis on export promotion and market development and less on developmental requirements); and simplification of procedures to facilitate commerce. Because of declining funding for foreign food aid activities, the ability to fully satisfy the needs of recipient countries is limited; therefore, Title I authority should be broadened to include agreements with private sector entities as well as governments. Appropriate safeguards to ensure a fair and competitive selection process for such private entities would be included in these authorities. Greater emphasis on private entities is consistent with the emerging post-Uruguay Round market environment.

The Title II program provides humanitarian assistance to foreign countries in response to malnutrition, famine, and other situations requiring extraordinary relief. The assistance is provided primarily through private voluntary organizations (PVOs), cooperatives, and international organizations, including the World Food Program

(WFP) of the United Nations. These organizations incur substantial administrative costs in distributing Title II commodities and these costs have increased in recent years because of logistics and infrastructure limitations as more countries in sub-Saharan Africa have become food aid recipients. Provisions of the 1990 Farm Bill amended P.L. 480 to provide for the use of $10-$13.5 million of Title II funds annually to meet administrative costs incurred by PVOs and cooperatives in distributing food aid commodities overseas. The effectiveness of Title II programming, particularly in emergency situations, could be enhanced if this authorization were expanded to include WFP administrative costs and if the annual amount of Title II funds authorized to meet these costs were increased. Some technical changes also could be made to help AID simplify and improve the administration and operation of this program.

P.L. 480 Title III provides food assistance on a grant basis to least-developed countries through government-to-government agreements. Its purpose is to help countries improve their food security and promote economic development. The donated commodities may be sold on the domestic market of the recipient countries. The revenue generated from the sales is used to support development programs. The program has proven effective in contributing to improved food security and in meeting economic development objectives in countries such as Bangladesh and Sri Lanka.

The Food Security Wheat Reserve was established to help the United States meet international food aid commitments. Wheat may be released from the 4-million ton reserve for use in P.L. 480 programs when U.S. domestic supplies of wheat are tight and wheat would not otherwise be available for programming. In addition, up to 300,000 metric tons of wheat may be released in any fiscal year for use in Title II to provide urgent humanitarian assistance in any developing country suffering a disaster in cases where wheat needed for relief cannot be provided in a timely manner in more customary channels of trade . The reserve has proven valuable for U.S. efforts in responding to international food aid needs. However, much of the demand for emergency food aid has recently been in Africa where corn, grain sorghum, and rice may be preferred over wheat. The usefulness of the Food Security Wheat Reserve could be enhanced if there were authority to include other bulk food commodities in addition to wheat. Procurement of these commodities could be accomplished through exchange of wheat from the reserve. Using this mechanism, the cost of the program would not be increased.

Guidance

The effectiveness of U.S. food aid efforts could be increased by providing for the following:

- In reauthorizing the Title I program, objectives would be narrowed to make it a more effective tool for market development through the introduction of a wide variety of U.S. commodities to establish long-term trading relationships. Programming would be tied to other USDA activities to develop trading relationships, such as technical assistance to improve food and rural business

systems and training of agricultural specialists, government officials, and business managers. Title I operations and procedures would be streamlined to facilitate participation by recipient countries, importers, and exporters. Potential changes include more flexible credit terms to better match country financial situations; a wider range of available commodities; and simplification of procedures to facilitate commerce, such as elimination of purchase authorizations and redundant letters of credit. Because funding for foreign food aid is declining, the ability to satisfy the needs of recipient governments is limited; therefore, authority would be broadened to include targeting concessional credit to private entities as well as to governments. Greater emphasis on private entities is consistent with the emerging post-Uruguay Round market environment. Appropriate protection to prevent fraud and abuse would have to be included, as would specific benchmarks.

- In reauthorizing the Title II program, current authority to use Title II funds for PVO and cooperative overseas administrative expenses would be increased to a maximum of $28 million per year and broadened to include WFP administrative expenses.

- The Title III program would be reauthorized as currently structured.

- In reauthorizing the Food Security Wheat Reserve, the commodities authorized for the reserve would be broadened to include other basic commodities appropriate for food aid programming, such as corn, grain sorghum, and rice.

■ *Sanitary and Phytosanitary Standards*

Issue

Future agricultural trade opportunities will continue to accrue to those countries which can objectively demonstrate that their commodities meet science-based sanitary and phytosanitary standards.

Discussion

Sanitary and phytosanitary standards will play an increasingly important role in marketing agricultural products abroad under GATT and NAFTA. USDA's Animal and Plant Health Inspection Service (APHIS) protects U.S. agriculture from imported pests and diseases and ensures that plant and animal products exported from the United States meet pest and disease requirements of importing countries. More effective and environmentally sound approaches to managing pest and disease threats within the United States will improve the competitive position of U.S. agricultural products in global markets.

The success of export market development is, to a large extent, dependent upon the perceived competence of organizations responsible for animal and plant health and their reliability in reporting pest and disease situations. Many commodities move internationally under some type of certification from appropriate authorities. Technical competence in providing certification results in greater reliability of those certifications, which is interpreted at destination as providing greater protection. USDA is well established in providing leadership in resolving sanitary and phytosanitary barriers to establish access to new markets, expand existing markets, or retain threatened markets.

USDA's phytosanitary program strives to reduce production costs attributable to pest management and pest losses by reducing reliance on pesticides. Actions which reduce pesticide use can enhance the confidence of global consumers in U.S. foods.

Area-wide pest management strategies which include education as well as pest control can be most successful, as exemplified by the achievements in the control of the boll weevil.

Guidance

- Endorse the use of area-wide pest management strategies, area-wide pest delivery strategies, funding authorities, or demonstration projects.

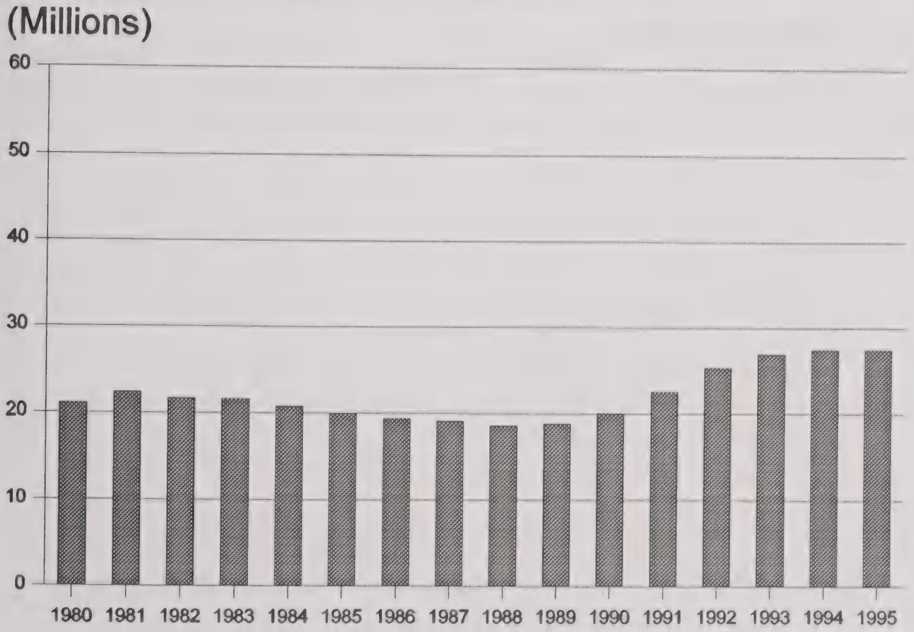
- Authorize USDA to work with other Federal agencies to control many nonindigenous species (e.g. noxious weeds, aquatic nuisance species, and biocontrol organisms) that could negatively affect U.S. agricultural production. These species have not historically been addressed by USDA because no clear authority exists to control them.

Section 5
Food and Nutrition

The United States Department of Agriculture administers the Nation's domestic food assistance programs which serve more than 45 million Americans every month. The Food Stamp Program alone serves about 27 million people monthly, more than half of whom are children, and about 7 percent of whom are elderly. Only about 20 percent of food stamp households have any earned income. The National School Lunch Program serves 25 million children each day. The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) provides food assistance, nutrition education, and critical health care referrals to nearly 7 million women, infants, and children monthly.

The Food Stamp Program is a national safety net designed to help meet the basic nutritional needs of all eligible low-income families or individuals; other food and nutrition programs provide supplemental benefits to those with special needs, such as children or pregnant or lactating women. Together these programs fashion a network of food and nutrition assistance that ensures that every American, regardless of income, has access to a more nutritious diet.

Food Stamp Program Participants



Most of the domestic food assistance programs were started in response to documented problems of underconsumption and undernutrition in the United States in the 1960s and early 1970s. National surveys had found problems of growth deficits, anemia, and dental caries were more common among low-income populations than the U.S. population as a whole. Since the start of the Food Stamp Program and other domestic food assistance programs, the nutritional status in the United States has improved--the incidence of stunting has decreased, the incidence of low birthweight has decreased, and the prevalence of anemia in low-income preschool aged children has decreased dramatically.

One of the most important elements of the Food Stamp Program and the Child Nutrition Program is their ability to meet the increased needs of individuals, communities, and States resulting from economic recession. Historically, the Food Stamp Program has automatically expanded to meet increased need when the economy is in recession and contracted when the economy is growing. Food stamp benefits automatically flow to communities, States and regions that face rising unemployment or poverty. The effect is to cushion some of the harsher effects of economic recession and provide stimulus to weakening economies.

Estimated FY 1995 outlays for USDA's 15 domestic food assistance and nutrition education assistance programs are $38.8 billion, accounting for 62 percent of the Department's outlays. The Food Stamp Program with estimated FY 1995 outlays of $26.6 billion is the single largest USDA program. The average per person food benefit from this program is about $70 a month. The scale of this program offers a powerful means to reach millions of Americans, but also implies a serious responsibility to serve its customers--the applicants for and recipients of food assistance and the taxpayers whose tax dollars support the program--efficiently and effectively. Our responsibility is to ensure that the Food Stamp program is administered efficiently, recipients treated with dignity, payments are made accurately and benefits used properly.

■Food Stamp Program Reform

Issue

The domestic food assistance programs provide an essential economic safety net and protect the dietary health of millions of adults and children. The Food Stamp Program is the primary food assistance program, serving the most clients with fundamental nutrition assistance. The program can be redesigned to address the need for improved program integrity, increased state flexibility, and demands for personal responsibility. Neither the status quo nor the extreme proposal to convert programs to block grants will provide a modernized program delivery system that ensures nutritional security and responds to economic need.

Discussion

The dual mission for food and nutrition policy is to ensure that all consumers have access to resources to purchase a healthful diet and the information to choose, prepare, and consume nutritious foods.

Although the link between diet and health is well established, the eating practices of most Americans do not meet the Dietary Guidelines for Americans. Nutrition leadership and education are needed because improvements in dietary practices will benefit society by improving quality of life and productivity, and by preventing early death.

Estimates indicate that in FY 1995 the Food Stamp Program will serve an average of 27 million Americans each month, at an annual cost of more than $26.6 billion. Total spending on domestic food assistance programs is estimated at $38.8 billion. Despite the benefits these large programs afford, nutrition education has not been adequately incorporated into client contacts.

The magnitude of the Food Stamp Program demands increased attention to program efficiency and integrity. A variety of enhanced authorities may be considered to deter food stamp fraud by retailers and program participants. Sanctions and incentives can encourage States to reduce error rates and recoup claims. Modernizing benefit delivery will improve program efficiency while facilitating improved program integrity.

The Federal government covers the costs of food stamp benefits but States share the costs of administering the program and are subject to uniform national standards of eligibility. Although States may request waivers of certain administrative rules, the system lacks the flexibility to encourage innovation and improve performance.

Eligibility for the Food Stamp Program is based on need. The program sets work and training requirements for able-bodied adults to promote personal responsibility and eliminate the individual's need for the program.

Guidance

A reform agenda that ensures nutritional security, improves program integrity, modernizes program delivery, provides State flexibility, responds to economic need, and demands personal responsibility should include the following:

- Expand nutrition education to promote health to the general public and program participants, and specify the importance of nutrition education in the Food Stamp Program mission statement. Complement nutrition education with efforts to improve access to quality, affordable foods in underserved areas.

- Enact anti-fraud legislation assuring that only legitimate retail food stores participate in the Food Stamp Program, strengthening penalties against retailers and recipients who defraud the program, and improving the collection of claims owed to the government. Require use of the Federal Tax Refund Offset Program and reform the Food Stamp Quality Control system to better utilize incentives and sanctions.

- Modernize delivery by removing the statutory prohibition against sharing Electronic Benefit Transfer (EBT) costs with retailers and by lifting the superfluous and administratively burdensome state-by-state EBT cost neutrality cap. EBT could also curb misuse of program benefits by helping to identify fraud more easily.

- Strengthen work and training requirements for able-bodied adults by streamlining and strengthening sanctions for noncompliance and restricting exemptions. This will reinforce the expectation that all those who can work should work. Personal responsibility should also be enhanced by permitting States to require cooperation with the Child Support Enforcement Program. Allowing States to deduct the charges associated with replacement of EBT cards directly from food stamp allotments will make food stamp recipients financially responsible for lost EBT cards.

- Augment State administrative flexibility by eliminating overly prescriptive requirements and giving States the authority to develop customer service guidelines appropriate for their clientele. Broaden authority for States to standardize benefits using income determinations from the Aid to Families with Dependent Children (AFDC), and grant States the flexibility to certify households for benefits for up to two years with annual contact to confirm household circumstances.

■Enhance Nutrition Education

Issue

The American public is making slow progress toward better nutrition and health despite numerous educational activities and considerable public and private expense. This may be due to nutrition messages to Americans that are usually fragmented, often confusing, and sometimes inconsistent. The Farm Bill is an opportunity to increase emphasis on nutrition for the general population, integrate nutrition education into all domestic food assistance programs, and to work with States to implement nutrition promotion activities.

Discussion

Over the last 15 years, a consensus on diet has developed among U.S. nutrition and health experts. The Dietary Guidelines expressed in the Food Guide Pyramid is one tangible expression of that consensus. Yet, an unfortunate disconnect appears between the dietary advice of experts and the eating patterns and practices of much of the American public. The public appears to be backsliding in its quest for better eating and health, despite considerable government activity and expense.

Several statutes give USDA piecemeal legislative authority to provide nutrition information and education to the general public and to participants in USDA domestic food assistance programs. This authority is fragmented and often tied to a specific food assistance program, which constrains the types of allowable activities. Broader authority should allow USDA to provide the needed leadership to ensure that all consumers have the information and motivation to make healthful choices.

The rising costs of health care and the growing knowledge of the links between diet and health point to substantive societal and individual benefits from effective nutritional education. Reducing early deaths, increased productivity, and improved quality of life are positive outcomes associated with improved nutrition.

While some programs, such as WIC and the National School Lunch Program, have established clear links to sound nutrition practices and nutrition education, others, particularly the Food Stamp Program and several of the commodity programs, have not. In addition, the commodity programs, particularly the Emergency Food Assistance Program (TEFAP) and the Soup Kitchens/Food Bank Program, offer little in the way of nutrition education.

Guidance

The following actions could greatly enhance the ability of USDA to fulfill its mission to improve the nutrition of all Americans.

- Expand USDA's nutrition mandate, eliminating statutory barriers to nutrition promotion activities. The new mandate should direct USDA to develop and implement a comprehensive consumer- and science-based program to assist all consumers in adopting healthful, nutritious eating patterns.

- Develop nutrition promotion goals for USDA food assistance program customers and American consumers. Develop a plan and means for measuring progress toward achievement of the goals.

- Forge partnerships with State and local organizations, nutrition experts, and the food industry to plan and implement strategies to integrate nutrition education into food assistance programs.

- In cooperation with State and local organizations, establish or strengthen nutrition support networks to coordinate nutrition activities in States and local communities.

■Commodity Program Consolidation

Issue

Several programs exist to provide nutrition assistance to needy Americans through the distribution of commodities for household consumption or in prepared meals. In some cases, the target populations for these programs overlap, but program rules differ. This creates confusion, increases administrative costs, and limits States' flexibility. Actions are needed to address these problems and to streamline USDA commodity programs.

Discussion

The Emergency Food Assistance Program (TEFAP), the Soup Kitchen/Food Bank Program, and the Commodity Supplemental Food Program (CSFP) currently provide commodity assistance to needy Americans. These programs have a wide variety of legislative and regulatory requirements, and are administered by several types of State agencies. Therefore, administration of the programs is complicated, and States have little flexibility in targeting their needy populations.

"Bonus" commodities, those acquired by USDA under surplus removal and price support authorities, are available to these programs in addition to commodities purchased under the specific program authorities. Bonus commodities are also available to "charitable institutions" which include soup kitchens, prisons, and hospitals.

Guidance

The following actions would address the shortcomings of the existing commodity distribution programs.

- Consolidate all funding currently available for commodities and administration of TEFAP and the Soup Kitchen/Food Bank Program. Funding for commodities and program administration initially would be allocated to the States based on the proportion of the total they received in FY 1995. States would be required to initiate a decision-making process on benefit targeting that includes formal opportunities for public input, and to incorporate their decision into a state plan of operations.

- Expand State flexibility to use the consolidated program to target assistance and streamline administrative and procurement processes.

- Integrate nutrition education into the consolidated commodity program. States would be encouraged to coordinate nutrition education and information delivery with the Food Stamp Program and WIC.

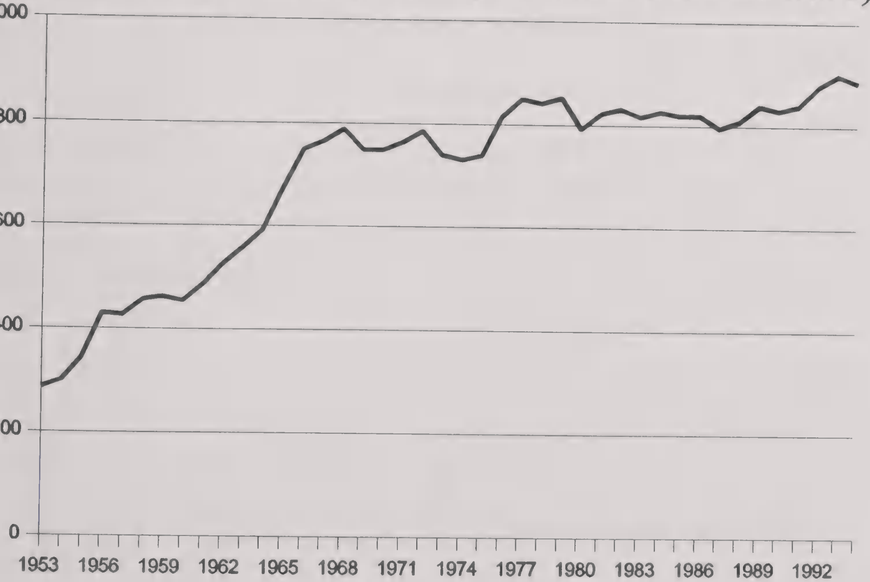
Section 7

Research, Education and Economics

The productivity of American agriculture can be largely attributed to the ability of research and education to develop and disseminate modern production practices. Growing demands have been placed on USDA to ensure safety of agricultural products, improve access to food and nutritional quality of diets, and develop and disseminate environmentally sound production practices. The loss of global competitiveness, the inability to stabilize a productive farm and rural population, or the failure to implement environmentally sound practices would have a significant, negative impact on the Nation.

USDA spends approximately $1.8 billion per year on research, education and economics, about 2.5 percent of Federal R&D expenditures. About $900 million goes to Federal research and statistics (Agricultural Research Service, Economic Research Service, National Agricultural Statistics Service) and about $935 million goes to

Federal Expenditures on Agriculture Research and Development (Millions -1987 Dollars)



cooperative state research, education and extension. Of that amount, $170 million are Hatch Act formula funds for research and education and $270 million are Smith-Lever formula funds for extension. Remaining funds to states are either targeted or distributed by competitive grants. While most Federal R&D activity is carried out by private sector contractors, R&D at USDA is done at approximately 120 departmental research facilities and 76 land grant universities and related institutions. These state-Federal science partnerships have been serving consumers and farmers well for the last 80 to 130 years.

President Clinton made clear his commitment to research at the National Rural Conference in Ames, Iowa, on April 25, 1995. "We need more agricultural research, not less...We should not back up on research, we should intensify research...Even as we give responsibilities back to state and local government and the private sector, the national government has a responsibility and an obligation to support adequate research."

The United States must maintain its world leadership in production agriculture. At the same time, commitment to increasing rural economic opportunity and insuring the safety of America's food supply must be maintained. Continued investment in the research and education capacities at America's world-class public facilities -- Federal laboratories, state land grant universities, experiment stations and extension services -- is critical to the well-being of all Americans. Moreover, because virtually every scientist is a product of "on-the-job training", failure to sustain support for higher education in USDA threatens our ability to field the next generation of scientists. The following proposals seek to develop a better coordinated, more powerful research and extension agenda for American consumers and American agriculture.

■National Research and Education Priorities

Issue

The productivity of American agriculture can be attributed to the Federal, state, and local government's investment in research and extension through which agricultural technology is developed and disseminated. This investment has benefited farmers as well as consumers who enjoy the most abundant and affordable food supply in the world. While many agricultural research goals have been achieved, new and emerging demands are being placed on the agricultural research system. Federal research activities should evolve to reflect such new national research and education priorities.

Discussion

Research and education at USDA is organized under objectives set in legislation from 1946 and renewed periodically since then. For example, the research objectives of the Agricultural Research Service are organized according to five disciplines: 1) Soil, Water and Air Sciences, 2) Plant Sciences, 3) Animal Sciences, 4) Commodity Conversion and Delivery, 5) Human Nutrition. The challenges facing agricultural production in the future are more complex than simply an "animal" problem or a "plant" problem. With the advance of scientific research, we have gained a greater understanding of the relationships among and between plants, animals, soil, water and air, as well as humans that operate as a system. Agricultural research could be organized to better reflect the integration of the biological, physical, and social sciences to address future agricultural research problems as systems--without compromising the important contributions of disciplinary research.

Reform would focus federally funded and conducted research and education on: enhancing economic opportunity for rural people and farmers, having a healthier, better-educated citizenry, reducing risk for consumers and farmers, enhancing global competitiveness, and protecting the natural resource base for society.

In the area of enhanced economic opportunity, options include: research on global marketing and domestic marketing assistance for family farmers; new crops and new uses; increased and improved technology transfer for family farmers and management practices and technologies appropriate for beginning and socially disadvantaged farmers. Enhanced opportunity for all rural residents would focus on "new uses" and value-added processing that can most effectively be done close to the source farms.

With special attention to the 15 percent of farms that produce more than 80 percent of all food and fiber, risk-reduction options would include new food safety inspection technologies, food handling and nutrition research for consumers, research and development to understand and mitigate weather variability; and development of non-regulatory approaches to environmental problems. Attention to the long-term issues of national and global food security would also be a critical element of risk reduction.

Having a healthier, better-educated citizenry depends on a strong research program in human nutritional needs and requirements. Providing an adequate supply of food that meets the individual nutritional requirements of a diverse population is essential to the security of the nation. Strong links to education are needed to ensure that research results are absorbed by all citizens.

Options for protecting the natural resource base include: the development and transfer of new technologies and farming practices that reduce farming's impact on the environment for all farms and their surrounding ecosystems; research and development to recycle agricultural wastes of large-scale farmers; technologies and practices that reduce farmer dependence on purchased inputs, and efforts to better understand when and why farmers adopt technologies that are more profitable and environmentally beneficial.

Enhanced global competitiveness will be achieved by such options as value-added processing, new uses of existing crops and animals, new crops, and commercialization of research that will create new jobs. A strong base program of research will allow the research system to respond quickly to economic, social, and environmental changes and support continued strength in production agriculture.

Some administrative reforms would aid in the identification and implementation of national research priorities; public and private oversight is critical. At present, there are three different general research advisory committees: the Agricultural Science and Technology Review Board, the Joint Council on Food and Agricultural Sciences, and the National Agricultural Research and Extension Users Advisory Board. In recent years, funding has been reduced to the point where none of the committees can adequately fulfill its role. The three committees should be replaced with one National Research, Education, and Economics Advisory Committee. Within the national structure, four regional advisory subcommittees would also be established. The committee membership would be multi-disciplinary, representing the physical, biological and the social sciences. It would include representatives of commodity groups, general agricultural organizations, natural resource conservation groups, consumers and the land grant community.

The advisory committee would be charged with advising the USDA and land grant university partners on the research and education priorities within the five areas of enhancing economic opportunity, reducing risk, having a healthier better educated citizenry, providing environmental benefits, and enhancing global competitiveness. The committee would be involved in the Agriculture Research Facilities Planning and Closure Commission by reviewing and approving the decision-making criteria to be used by the Closure Commission. To ensure the inclusion of underrepresented groups, the partnership with such groups as the 1890 Land Grant Universities, the Hispanic Association of Colleges and Universities, and the 1994 Land Grant (Native American) Institutes should be renewed.

Recognizing the difficulties of assessing research and education programs, the benefits of which may not be realized for generations to come, the allocation of our Nation's research investments should nonetheless undergo periodic review by both the scientific community and the user community to ensure that these investments are most productively employed. Such reviews can serve to inject new national research priorities into the process by which the scientific community is provided with research incentives, while respecting the value of academic freedom in spurring scientific innovation. The advisory committee would provide a vehicle for advancing national research and education priorities in agriculture and, in doing so, enhance the effectiveness of both the critical disciplinary endeavors of agricultural science scholars and the parallel multidisciplinary endeavors.

Guidance

- The 1995 Farm Bill should focus research and education on: 1) enhancing economic opportunity, 2) protecting natural resources and the environment, 3) having a healthier, better educated citizenry, 4) reducing risk for consumers and farmers, and 5) enhancing global competitiveness. To advance this end, there should be increased efforts by USDA, the user community, and the scientific community to employ assessment and evaluation methods for research programs and projects that take account of those priorities. USDA must create a coordinated set of strategies between its disciplinary science efforts and systems-oriented endeavors to address increasingly complex agricultural problems. Reform will further advance fundamental and applied science in support of the Nation's food and fiber system.

■*Agricultural Research Facilities*

Issue

Limited resources and shifts in national research priorities require that Federal agricultural research facilities reflect national priorities and maintain their capacity to sustain world-class research. First, authorization of a new Agriculture Research Facilities Study Commission would provide an opportunity to assess and evaluate existing research facilities and make recommendations for realignment, closure, construction, consolidation, or modernization of Federal research facilities that would reflect national priorities. The criteria for evaluation and assessment should reflect the research objectives of enhancing economic opportunity, reducing risk, having a healthier, better-educated citizenry, protecting natural resources and the environment, and enhancing global competitiveness. Second, a competitive grants program could be created to support high-priority facility construction at the 1862 and 1890 land grant universities.

Discussion

The Agricultural Research Service (ARS) operates 116 Federal research locations throughout the United States and abroad. Several of these facilities are regarded as major research centers that carry out critical national and international agricultural research. As research needs have changed, resources been constrained and maintenance costs increased, there is a growing need to review the current capacity of ARS facilities to ensure the continuance of high-priority and high-quality research. ARS has already begun this process to some extent by closing 10 facilities in FY 1995. Twelve more facilities are targeted for closure in the President's FY 1996 budget. However, a more deliberate and comprehensive process is needed to make sound decisions on the future capacity of ARS research facilities.

Facility construction at Federal laboratories and land grant universities has been influenced by Congressional earmarks. This process for decision-making results in limited consideration of national research priorities.

The 1990 farm bill authorized the creation of an Agriculture Research Facilities Planning and Closure Study Commission. The commission has not received appropriations and therefore, has never been activated. The commission was charged with reviewing existing and proposed federally funded research facilities, identifying those that should be closed, realigned, consolidated, or modernized and making recommendations to Congress. Authorization of a new study commission would enable a more comprehensive review of the nation's research facilities to meet the research needs and priorities of the next century. The 1990 language should serve as a base and be amended to change the membership of the commission from Congressional members to 25 private-sector members with representation from farm commodity groups, general farm organizations, agricultural scientists associations and conservation organizations.

The 1990 farm bill language should also be amended to include the requirement of a 10-year strategic plan for development, construction, consolidation and closure of Federal facilities-from a national and regional perspective. It is important to review both Federal and state research facilities to ensure that each region contains facilities that are complementary to each other while at the same time provide a comprehensive research capacity for the region.

A competitive grant program for university research facilities could replace the current earmark process and ensure greater equity and relevance of federally supported research at land grant universities. Criteria for grant awards could reflect national research priorities in the areas of enhancing economic opportunity, reducing risk, having a healthier, better-educated citizenry, providing environmental benefits, and enhancing global competitiveness. This authorization would replace USDA's current facility construction authority.

Guidance

- Federally funded research facilities must be poised to meet the challenges and opportunities of the next century. In an era of tightened budgets, a more systematic and deliberate decision-making process is required. Two strategies should be employed: 1) Authorization of a new Agriculture Research Facilities Study Commission and 2) Creation of a competitive grant program to support facility construction at 1862 and 1890 land grant universities. These two strategies would be implemented according to criteria that support national research priorities in the areas of enhancing economic opportunity, reducing risk, having a healthier, better-educated citizenry, protecting the natural resource base and the environment, and enhancing global competitiveness.

■ *Agricultural Research and Education Partnerships*

Issue

The Federal-State partnership in the cooperative research and extension system has proven extremely successful in advancing and diffusing scientific and technical innovation in agriculture. Its effectiveness could be further enhanced by both strengthening and adding flexibility to the Federal-State-local partnerships in the cooperative research and extension system.

Discussion

The Cooperative State Research, Education and Extension Service (CSREES) operates under a partnership among the Federal, State and local governments. This multi-government partnership has been highly successful in advancing the productivity of agriculture and improving the quality of life in rural America through research and extension efforts. As the population has shifted from rural to urban and suburban, research and education needs have changed at the same time budgets have contracted.

One area for potential change is the CSREES Special Grants Program. The Special Grants Program is funded at $61 million for FY 1995 of which $46 million is earmarked. (The FY 1996 budget is $40 million, excluding earmarks.) The earmarking of funds for expenditure in specific Congressional districts through special grants is attractive to appropriators and constituents. However, the earmarking process undercuts USDA's ability to coordinate research activities and address national priorities. While earmarking of federal dollars may respond to a need to serve local priorities, a more coordinated approach reflecting national priorities would be more justifiable.

Guidance

Stronger Federal-State-local partnerships for USDA's research and education programs can be achieved in the following way:

- Establish a competitively awarded matching grant program for applied research. A competitive grant program with a 50-percent match would replace the current earmarking process of CSREES Special Grants Program and ensure that federal research priorities are addressed.

■Research, Education and Economics Policy Council

Issue

USDA's Research, Education and Economics (REE) mission area serves as an independent and objective source of research and analysis for the Department's action agencies. The establishment of a Research, Education and Economics Policy Council would help improve linkages between USDA's agricultural research activities and related decision-making and operations of the USDA action agencies.

Discussion

REE's research contributes to the programs and efforts of USDA's other mission areas and other elements of the Federal government. For example, the nutrition and dietary intake research of the Agricultural Research Service (ARS) and Cooperative State Research, Education, and Extension Service (CSREES) contributes to the determination of the official Dietary Guidelines and Food Pyramid. The Economic Research Service (ERS) does food cost surveys which guide regulation of the WIC and Food Stamp programs. ERS research also contributes to the implementation of programs ranging from food safety to rural development. In addition, CSREES, through its Extension programs, provides adult and youth education on a broad array of topics which contribute to the performance of all of USDA's programs. CSREES' Expanded Food and Nutrition Education Program (EFNEP) complements the WIC program by providing nutrition education and food preparation training to youth and families. ARS, the National Agricultural Statistics Service (NASS), and CSREES, through their partners in research and extension, address Integrated Pest Management (IPM) which is a national priority. Extension also provides education to farmers on soil conservation and water quality.

A Research, Education and Economics Policy Council could create an improved link between REE's research and education functions and the action agencies. The REE Policy Council would be established within the Office of the Under Secretary for REE and would be comprised of the agency administrators of the ARS, ERS, CSREES, and NASS, along with the Under and Assistant Secretaries of USDA. The Under Secretary for REE would chair the council.

The council would provide a forum for better communication about the availability and capabilities of REE research, education, and economics activities. The council would establish priorities to ensure coordination of efforts in carrying out USDA's programs and activities that are dependent on the research, education, and economics functions of the mission area. Through participation in the REE Policy Council, the action agencies would be involved in developing requests for proposals and making decisions on priorities for competitive grant programs.

The REE Policy Council would be charged with determining national research and

education priorities based on customer input and needs consistent with enhancing economic opportunity, reducing risk, having a healthier, better-educated citizenry, protecting natural resources and the environment, and enhancing global competitiveness. By involving action agencies in this process, the results of REE's research and education programs can more effectively contribute to the program performance of the USDA. There should also be increased efforts by USDA, the user community and the scientific community to employ assessment and evaluation methods for research programs and projects. The REE Policy Council may help in this endeavor.

In addition, the REE Policy Council would provide a focus for the research and education needs for Administration or Departmental initiatives. The council could provide a research and education base for specific initiatives such as IPM, minor crop pesticide registration, or water quality.

Guidance

- The 1995 Farm Bill should authorize the creation of a Research, Education and Economics Policy Council under the direction of the Under Secretary for REE. The council would involve the administrators of action agencies dependent on REE's research and education programs. The purpose of the council would be to improve linkages between USDA's agricultural research and education activities and the needs of its action agencies.

■Aquaculture

Issue

Aquaculture is poised to become a major growth industry. Global demand for fish and seafood is projected to increase sharply over the next several decades, while harvests from wild-catch ocean fisheries are stable or declining. A dramatic increase in aquaculture is needed to meet future fish and seafood demand, to offset a multi-billion dollar U.S. fisheries trade deficit, and to offer consumers abundant supplies of high-quality, safe, wholesome, and affordable fish and seafood.

Discussion

The United States has an important opportunity to develop a globally competitive aquaculture industry to serve national needs and the international market. Sustainable, environmentally responsible aquaculture development holds particular promise for rural communities. New aquaculture technologies can create challenging, rewarding new jobs and foster rural economic development by stimulating new business ventures among small, rural and/or minority-owned companies.

Reauthorization of the Regional Aquaculture Centers and reauthorization of the National Aquaculture Act of 1980 would greatly improve prospects for this growing sector of the food and fiber industry.

Guidance

Reauthorize the Regional Aquaculture Centers and the National Aquaculture Act of 1980 with the following provisions:

- Establish private aquaculture as a form of agriculture.

- Authorize USDA as the lead Federal agency, working in close cooperation with other Federal agencies, for the development, implementation, promotion, and coordination of national policy and programs for private aquaculture.

- Include aquaculture in all authorities for USDA research, education, and extension.

- Establish a program to accelerate the transfer of promising research and technical advances, including environmental technologies, to commercial aquaculture applications.

■National Genetic Resources Program

Issue

Access to germplasm (raw material used in genetic research) may be limited by foreign laws and regulations as well as proprietary interests from industry, patents, and other decisions. Limiting access to germplasm significantly hinders the ability of U.S. researchers to make significant progress in microbial, plant and animal research. The potential of biotechnology, as well as conventional crop improvement, depends on access to germplasm.

Discussion

The 1990 Farm Bill authorized the Secretary to make germplasm available upon request, without charge and without regard to the country from which the request originates. While the United States has been forthcoming in making its germplasm stocks available to international research, other countries have not reciprocated. Access to germplasm can be enhanced if agricultural science and technology agreements with other countries include the provision for access to genetic resources for research.

Guidance

- Access to international sources of germplasm should be strengthened. USDA's National Genetic Resources Program should have authority to negotiate in its science and technology exchanges with other countries the inclusion of genetic resources exchange.

Section 6

Food Safety

The American public has a profound interest in the safety of the food supply. The prevention of foodborne illnesses is becoming more complex as the problem changes from macro (observable contamination) to micro (bacteria, mold, viruses, yeast, and parasites). These illnesses are estimated to cost up to $9.4 billion annually. Furthermore, food and agricultural products will be traded on a more global basis as international trade increases and barriers are reduced. Consumers need and demand a system which ensures the safest possible foods, regardless of origin. U.S. producers and processors need a system that provides certainty for consumers about food safety and ensures that U.S. products are welcome in the domestic and world markets.

Few would disagree that there is a need for improvement in the current system of meat and poultry inspection to further reduce the risk of foodborne illness and better protect public health. The current system of meat and poultry inspection contributes a great deal to the safety of meat and poultry products. However, the current food safety system contains critical gaps when it comes to the most significant food safety hazards associated with meat and poultry products, microbiological contaminants. A comprehensive food safety strategy includes modernization of statutes, regulations, and procedures; certainty for producers and processors that sound scientific methods will be applied; and assurance to consumers in the United States and other countries that American products are safe and wholesome.

Estimated Foodborne Illness Costs from Six Major Pathogens, 1993

	All Foods ($ Billion)	Meat/Poultry ($ Billion)
Salmonella	0.6-3.5	0.3-2.6
Campylobacter jejuni or coli	0.6-1.0	0.5-0.8
E. coli O157:H7	0.2-0.6	0.2-0.5
Listeria monocytogenes	0.2-0.3	0.1-0.2
Staphylococcus aureus	1.2	0.6
Clostridium perfringens	0.1	0.1
Total	2.9-6.7	1.8-4.8

■Meat and Poultry Food Safety Reform

Issue

The development of a food safety strategy for reducing the presence of pathogenic microorganisms in the meat and poultry supply has been the focus of several Congressional hearings. A more science-based program could ensure the safety of meat and poultry products throughout the farm-to-table continuum. Agricultural producers, handlers, processors, distributors, transporters, retailers, and consumers all have a role to play in ensuring the safety of meat and poultry products and the prevention of foodborne illness. A variety of tools could be utilized, including collaborative programs, education, regulation, and legislation to reduce the risk of foodborne illness associated with the consumption of meat and poultry products and to ensure the optimal allocation of inspection and regulatory resources.

Discussion

The current meat and poultry inspection system plays a critical role in meeting many of the public's valid and longstanding expectations concerning the safety of meat and poultry products. However, the current system does not sufficiently focus on preventing contamination of raw meat and poultry products with pathogenic microorganisms, or identify measurable food safety performance standards. The Administration has proposed legislation and taken significant administrative and regulatory actions to fill the critical gaps in the current meat and poultry inspection system.

In 1994, the Administration proposed the Pathogen Reduction Act of 1994 to provide USDA greater authority to protect public health and improve the safety of the nation's meat and poultry supply. The legislation reflects the Administration's commitment to enhancing food safety. Adoption of provisions to improve safety of meat and poultry products would bolster efforts the Administration has taken under current law and send a strong message to consumers and the industry of its commitment to reduce the risk of foodborne illness associated with the consumption of meat and poultry products. Some of the core principles of the Pathogen Reduction Act include:

- Mandating USDA to promulgate regulations that establish microbiological standards and require microbiological testing on the basis of the best available scientific and technological data.

- Providing USDA the authority to mandate recall of an adulterated or misbranded product if, after providing an opportunity for voluntary recall, recall is not performed in the manner specified by USDA. USDA does not now have such authority.

- Cooperatively working with producers and handlers and with other food safety and animal health agencies to reduce pathogens and residues at the source.

- Providing USDA the authority to deny or withdraw Federal inspection for repeat violations of meat and poultry laws and regulations. USDA does not now have such authority.

- Providing USDA the authority to impose civil penalties for noncompliance with meat and poultry inspection requirements. USDA does not now have such authority.

Under current statutory authority, USDA has taken aggressive action to improve food safety. These actions included unannounced reviews in 1,000 meat and poultry establishments, implementation of mandatory safe cooking and handling instructions on meat and poultry product labels, increased funding for food safety research and additional inspectors, elevation of food safety to a subcabinet level position, declaration of *E. coli 0157:H7* in raw ground beef an illegal adulterant, initiation of testing of raw ground beef for *E. coli 0157:H7*, acceleration of the development of rapid microbiological tests, and evaluation of alternative inspection approaches.

As part of continuing action to reform the meat and poultry inspection system, on February 3, 1995, USDA published in the Federal Register a proposed regulation that would require the use of a system of preventive controls, known as Hazard Analysis and Critical Control Point (HACCP) systems and establishment of measurable performance standards for pathogen reduction. Every Federally-inspected, state-inspected, and foreign establishment exporting meat and poultry to the United States would be required to develop and maintain a HACCP plan for controlling food safety hazards. HACCP is a science based system of preventive controls that is recognized within the scientific and public health community worldwide as a powerful tool for building food safety into a food product. HACCP works by targeting the most significant hazards and building in controls to reduce or prevent them at each step of the food production process. HACCP is the conceptual framework for the future of the USDA meat and poultry inspection program.

Guidance

Meat and poultry food safety reform should be considered comprehensively, independent of the Farm Bill. However, consideration of meat and poultry food safety reform must include the following:

- The core principles from the Pathogen Reduction Act of 1994 (discussed above).

- Emphasis on modernization and enhancement of the inspection system through the ongoing reform efforts reflected in the proposed Pathogen Reduction/HACCP rulemaking and other administrative actions to improve food safety and ensure optimal use of inspection and regulatory resources.

- Support for implementation of the proposed Pathogen Reduction/HACCP

rulemaking and emphasis on criteria that must be considered in any legislative review of meat and poultry inspection laws. Criteria should include improving food safety, protecting consumers, enhancing public confidence, fostering innovation, ensuring that HACCP systems have been successfully implemented, and ensuring optimal use of resources to improve food safety.

■*Interstate Movement of State Inspected Meat and Poultry Products*

Issue

The meat and poultry inspection acts require USDA to approve state meat and poultry inspection programs for products traveling in intrastate commerce. USDA reviews state programs to ensure that state standards are "at least equal to" Federal standards. States could be provided greater economic opportunity if product from state-inspected establishments is permitted to enter interstate commerce.

Discussion

The Federal meat and poultry inspection acts require that all meat and poultry products sold in interstate and foreign commerce be inspected by the Federal government. Under the State-Federal Cooperative Inspection Program, individual states are authorized to inspect meat and poultry products sold solely within their boundaries, provided their inspection program is at least equal to that of the Federal government. Currently, 27 states have USDA-approved inspection programs, covering about 3,000 slaughtering and processing plants. This accounts for about 7 percent of all meat and poultry products produced in the United States, but more than one-third of all meat and poultry plants under Federal or State inspection.

Guidance

- Legislative review of the current prohibition on interstate shipment of state-inspected meat and poultry products must include consideration of criteria such as improvement of food safety, verifying successful implementation of the HACCP system prior to removal of such prohibition, and assuring the availability of adequate Federal resources and appropriate oversight to ensure that state inspection is at least equal to Federal standards.

■ *User Fees for Meat, Poultry, and Egg Inspection*

Issue

Both industry and consumers benefit from Federal inspection of meat, poultry, and egg products. Adequate funding is vital to the integrity of the inspection program and to public confidence in the meat, poultry, and egg supply.

Discussion

The FY 1996 budget request proposes legislation to provide Food Safety Inspection Service (FSIS) the authority to recover 100 percent of the cost of providing inspection beyond a primary approved shift. An estimated $106.8 million is expected to be collected in new user fees. The proposal will correct existing inequities in how the industry is charged for overtime inspection. Currently, meat, poultry, and egg inspection services that are regularly scheduled and approved are provided at no cost to establishments. Establishments that require inspection services during overtime and holidays must reimburse the agency for the entire cost of providing inspection during those periods. As a result, establishments that are able to schedule two eight-hour shifts in a day are provided inspection without charge. However, the generally smaller establishments that do not have enough production to warrant a complete additional shift must pay overtime. The user fee proposal would equalize the costs of inspection by charging all establishments for the cost of operating beyond a single complete shift.

Continued investment in meat, poultry, and egg products inspection is needed to hire personnel to more adequately staff in-plant inspection positions and for the scientific efforts to reform the system. However, current constraints on appropriated funds have hindered these investments. The user fee proposal would result in industry paying about 28 percent of the cost of the meat, poultry, and egg products inspection system, while taxpayers would continue to finance approximately 72 percent of the cost of the system. These fees will have a negligible impact on prices.

Guidance

- Implement user fees to recover the costs of providing meat, poultry, and egg inspection beyond a primary approved shift.

■Pesticide Regulation

Issue

Pesticide residues in the food supply were the subject of a 1993 National Academy of Sciences report. It recommended procedures to ensure that children be fully protected from pesticide risks, and that regulatory agencies be authorized to strengthen their ability to make and enforce sound, timely, scientific-based decisions to protect public health and the environment.

Discussion

In 1994, the Administration proposed legislation to amend the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) and the Federal Food, Drug and Cosmetic Act (FFDCA). It fulfilled a commitment to protect health and the environment and to make the American food supply, which is among the safest in the world, even safer.

The proposed legislation included the following reforms: registration sunset, streamlined procedures for label changes, incentives for reduced risk pesticides, support for Integrated Pest Management (IPM), export restrictions, assistance for minor use pesticides, streamlined cancellation and suspension procedures, special provisions for infants and children in setting tolerance levels for residues, additional fees to support re-registration, and expanded enforcement authorities.

Guidance

The issues of greatest concern to American agriculture include the availability of tools to manage pests economically, procedures for setting tolerance levels for pesticide residue, food safety considerations for children, registration procedures of minor-use pesticides, incentives for reduced-risk pesticides, and registration renewal procedures.

Substantial legislative reform should include the core principles from the 1994 pesticide package:

- Modernization of tolerance-setting procedures to represent modern scientific assessment and risk standards. This would replace the current zero-risk standard with a more flexible and less costly uniform public-health-based standard.

- Establishment of mechanisms based on the best and most recent science to better protect children's and infants' distinctive diet.

- Place the pesticide regulatory system on sound financial and administrative footing to meet the challenge of sustainable pest control into the next century.

- Promote economic efficiency, environmental sustainability, and market innovation in pesticide regulation by applying cost-benefit criteria to registration decisions, by reviewing all pesticide regulations to ensure that they meet the most current scientific standards, and by expediting the registration process for reduced-risk and minor-use pesticides.

- Promote market-based incentives in regulating pesticides.